LONGE

REFUTATION OF THE WAGE-FUND THEORY

A Reprint of Economic Tracts

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Francis D. Longe

on

The Wage-Fund Theory

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INTRODUCTION

The circumstances attending the composition of the essay here reprinted have been permitted to remain in unmerited obscurity. From memoranda courteously supplied by Mr. Longe himself, now living in retirement in Lowestoft, England, the following statement has been prepared:

Francis D. Longe was an Oxford man (1850-4), and while there combined a study of John Stuart Mill's philosophy with other subjects. Soon after joining the bar in 1858, he was associated with the Children's Employment Commission. His official duty as an assistant commissioner brought him in contact with large employers of labor, and gave him opportunities of learning the views of practical men on the wages problem. Some of those whom he thus met were well-educated men, and acquainted with Mill's theories of the relation between capital and labor. Mr. Longe became convinced that the wage-fund theory was a delusion, and as soon as a release from official claims on his time permitted, he elaborated his refutation of this fallacy, and published his views in the present pamphlet in 1866. He had previously (1860) published a short treatise on the law of strikes[1] which gave a sketch of the manner in which the statute and common law had treated combinations of workmen from 1350. In 1870 he became a local government inspector, which office he held until 1896. The duties of this position precluded his devoting much time to literary and scientific pursuits. In 1893, however, he was roused by the fallacies in Mr. Henry George's "Progress and Poverty" to write another short pamphlet combining a criticism of Mr. George's theory of the wage-fund with that of Mill's.[2]

The precise part played by Longe's essay in the formal refutation of the wage-fund theory has been an unsettled question in the history of economic thought. The pamphlet was originally published and circulated in 1866. In 1869, three years later,

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[1] "An Inquiry into the Law of Strikes." By Francis D. Longe, of the Inner Temple, Barrister at Law. Cambridge and London, 1860.

[2] "A Critical Examination of Mr. George's 'Progress and Poverty' and Mr. Mill's Theory of Wages." By Francis D. Longe, Author of "A Refutation of the Wage Fund Theory of Modern Political Economy," 1866. London, Manchester, Birmingham and Cheltenham [1893].

appeared Thornton's volume "On Labour," with a sharp attack upon the doctrine of the wage-fund. In the *Fortnightly Review* for May, 1869, Mill reviewed Thornton's treatise and formally admitted that "it destroys a prevailing and somewhat mischievous error." Upon the appearance of Mill's article, Mr. Longe tells us, "I had the unsold copies of my pamphlet re-covered with a new title-page bearing the date of 1869, and with a prefatory note[3] referring to Mill's retraction. No alteration whatever was made in the text." In point of time Longe's indictment thus clearly preceded and was entirely independent of Cliffe-Leslie's criticism of 1868, Thornton's attack and Mill's recantation of 1869, and Walker's definitive assaults of 1874-5.

But it was to Thornton and not to Longe that Mill "surrendered the whole territory covered by the wages-fund flag." The point at issue accordingly resolves itself into the relation of Thornton's essay to Longe's pamphlet.

Nominally at least there is no dependence. Neither in Thornton's formal treatise nor in Mill's ponderous recantation is Longe's name or work so much as mentioned. As to any actual indebtedness, there is marked difference of opinion on the part of commentators. A trenchant critic in the *Quarterly Review* of July, 1871, declared flatly that "Mr. Thornton, in the first edition of his above-cited work 'On Labor,' adopted without acknowledgement Mr. Longe's previously published refutation of that theory." Some years later, Francis A. Walker admitted that "the obscurity of the pamphlet of 1866 may fairly be accepted in Mr. Thornton's exculpation," and added "If more were needed, the decided inferiority of his treatment of the subject ought to procure his acquittal."[4] Similarly the most recent historian of the theory of wages has stated that Longe "very likely was not known to Thornton."[5]

Some interesting evidence on this score is furnished by Mr. Longe himself:[6] "What I remember of the question is this. I never heard of Mr. Thornton until I saw Mill's review of his book on 'Labor and its Claims' in the *Fortnightly* for May, 1869. I had sent a copy of my pamphlet to Mill and Fawcett (among many others) in 1866, and it was certainly known to

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[3] The full text of the prefatory note is reprinted below (v. note 1, p. 73).

[4] "The Wage-Fund Theory," in *The North American Review*, January, 1875.

[5] Taussig, "Wages and Capital: An Examination of the Wages-Fund Doctrine" (New York, 1896), p. 246.

[6] In memoranda and letters to the present writer.

political economists in 1867 and 1868. I never received any acknowledgement of its receipt from either Mill or Fawcett. I had been told that Thornton was an intimate friend of Mill, and that they were in the same office in London—the India House—and that both were writers on economic subjects. I never doubted that Thornton as well as Mill was aware of my pamphlet, and was pleased to find these known writers adopting my views. Being fully occupied with the duties of my new office, I returned to my district in the country and thought no more about the matter. I never heard that Mr. Mill or Mr. Thornton denied that they had seen my pamphlet before their publication in 1869. But I remember being told that Mr. Thornton had said that he had formed the same opinion that I had as to the fallacy of Mill's theory, before my pamphlet was published—which is very probable. After the appearance of Mill's article in the *Fortnightly Review*, the importance of my 'Refutation' was recognized, and the Secretary of the Political Economy Society paid me the compliment of inviting me to meet the members at a club dinner, as a recognition of my authorship of the pamphlet. A little light conversation took place about it, after dinner, but no allusion was made to the connection between my 'Refutation' and Mill's and Thornton's change of views."

In this connection it is at least interesting to notice that in the *Fortnightly Review* for October, 1866, a few months after Longe's essay was published, appeared a paper by Thornton on "A New Theory of Supply and Demand," in which the dependence of price upon competition and of competition upon prospective supply and demand was emphasized. A concluding sentence (p. 434), indicated that the possibility of raising the price of labor "artificially, and irrespectively of supply and demand," was engaging his further attention. In a paper on "What Determines the Price of Labor or Rate of Wages?" in the *Fortnightly* for May, 1867, Thornton discussed the question at length. The conclusion reached was that combinations among laborers might become effective in raising wages. A lengthy footnote (p. 564), contained the first reference to the wage-fund fallacy, which in the form enunciated by Fawcett and McCulloch was vigorously denounced. Finally in the same journal for October, November and December, 1867, Thornton published "Stray Chapters from a Forthcoming Work on Labor," dealing with the claims of labor, the rights of capital and the origin of trades unions. In the *Fortnightly* for August and September, 1867, appeared a serial article on "The Law of Trade Combinations in France," bearing the signature "Francis D. Longe."

The history of the law of trade combinations in France was therein reviewed with reference to the contemporary situation in England, as developed by the Sheffield outrages and the parliamentary inquiry into trade unionism.

On bringing the above facts to Mr. Longe's attention and suggesting their possible relation to the question at issue, Mr. Longe writes: "I know nothing about the papers referred to and I cannot remember writing a serial article in the *Fortnightly* of August-September, 1867—nor any discussion to which both Longe and Thornton contributed. As I say in my account—I never heard of Thornton, that I can remember, before Mill's article in 1869."

The present edition is a reprint of Longe's essay as first issued in 1866. The general appearance of the title page has been preserved, the original pagination has been indicated and a few notes have been appended.

BALTIMORE, *March*, 1904.

A REFUTATION

OF

THE WAGE-FUND THEORY

OF

MODERN POLITICAL ECONOMY

AS ENUNCIATED BY

MR. MILL, M.P. AND MR. FAWCETT, M.P.

BY

FRANCIS D. LONGE

BARRISTER-AT-LAW.

LONDON:

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THE

WAGE-FUND THEORY.

Introductory remarks.

OF the various branches of that intricate science, called 'Political Economy,' there is none on which it is so important that the doctrines of its teachers should be sound and true as that of the theory of wages.

In treating of this subject, the theorist is dealing with the trade relations between two classes, one of which is but little able to speak for itself, while the more immediate and apparent interests of the reading public are in the main identical with those of the other.

A theory of the relation between capital and labour, which condemned the combination of labourers, whilst it divested employers of all responsibility for the payment of low or insufficient wages, however erroneous it might be, would not be likely to meet with much opposition from those who would be the most competent to detect and expose the errors on which it was based; and if such a theory, as appears to be the case
with the wage-fund theory, should be || the fundamental creed 2
of some of the most prominent advocates of the social and political advancement of the working classes, any attempt to call it in question or refute it would seem to be a thankless if not a useless task.

Now, although there are probably very few whose conduct is much influenced by their knowledge of what are called the 'fundamental or elementary principles of political economy,' there seems to be a belief, very prevalent among educated and thinking men, that the principles enunciated by Mr.

Mill, Mr. Fawcett, and other less known writers, with respect to the wages of labour, are truths long since well established.

Mr. Mill's theory of the 'laws' of wages has been open to criticism ever since the year 1848, when his 'Principles of Political Economy' were first published; and whatever doubts may have existed as to the truth of the fundamental principles of his system, the author's faith in their soundness is still such, that he has during the last year reproduced them in a 'People's Edition' of his elaborate and beautifully written treatise, for the instruction of those classes whose material or pecuniary condition is supposed to be governed by the 'laws' there enunciated.

The same theory has lately been epitomised by Mr. Fawcett, in his 'Manual of Political Economy,' in which work its fundamental principles have been brought into greater prominence, and the errors and fallacies involved in it have been rendered more apparent. Principles and theorems which are enunciated and discussed by Mr. Mill, in the most captivating
3 language, || and with the caution and argumentative skill of a special pleader, are treated by Mr. Fawcett as dogmas of long-established truth, which only need clear and simple exposition to render them at once both intelligible and credible to the ordinary mind.*

What the political economist undertakes to teach.

The political economist, in enunciating a theory of the wages of labour, undertakes to propound and explain the causes or 'laws,' as they are sometimes called, by which the price of labour, or the rate at which labourers are paid in the normal course of trade or business, is controlled or determined.

The immediate causes by which wages are determined are, we all know, the contracts by which labourers and their em-

* Except, it seems, to that of the business man. 'The business man,' says Mr. Fawcett, 'assuming a confidence which ignorance alone can give, contemptuously sneers at political economy, and assumes that he is in possession of a superior wisdom, which enables him to grapple with all the practical affairs of life, unhampered by theories and unfettered by principles.'—*The Economic Position of the British Labourer*, p. 1.

ployers agree upon and fix the amount of wage or remuneration to be given in exchange for certain labour, work, or service. We know that these contracts or agreements, like those between the sellers and buyers of goods, are influenced or controlled by a variety of circumstances, conditions, and considerations, affecting the power or willingness of either party to grant or accept particular terms. We also know that the material condition of the labouring classes depends almost entirely upon the quantity of wealth or means of living which they are able to get from time to time in exchange for their labour. || 4

It is then of the utmost importance, to the labourer at all events, that he should know the nature of all the conditions by which the terms of such contracts are controlled. Such knowledge alone would enable him to judge how far he would be acting rightly towards himself or his class in accepting whatever sum an employer offers; whether he should on any occasion endeavour to obtain a better price for his labour, either by appealing to his employer's liberality or by agreeing with his fellow-labourers not to sell their labour under a certain rate, but to hold it back, as traders hold their goods back, in order to induce the purchaser to give their price.

The practical philanthropist, moreover, and indeed the public at large, are deeply interested in the questions,—how far the interests of the labourer are protected by those of the employer; and whether in those cases where labourers are, from poverty or the absence of association, almost entirely in their employers' power, as is for the most part the case with the agricultural labourer, employers could with justice be blamed if the wages they paid were below what the public should deem sufficient.

The practical teaching of the wage-fund theorist.

To such questions as these the labourer and the philanthropist would find, in the following passage from Mr. Fawcett's lectures, a very direct, if not a very satisfactory answer:—

'It is essential to our investigations that a clear conception should be obtained of the causes which regulate the wages which

are paid in any employment. It is not unfrequently assumed that wages are only controlled by the arbitrary caprice of the employer. If therefore they are supposed to || be low, he alone is blamed; and he is often denounced, as if greed and selfishness prompted him to deprive the labourer of his just reward. Such opinions as these are often maintained by well-intentioned men, and consequently their philanthropy becomes a futile and misdirected effort. These opinions are also the origin of much of that ill-feeling which exists between employers and employed; for accusations will constantly be made against employers, if labourers believe that the amount of wages they receive is solely determined by the will of those for whom they work....

'It is therefore most important to show that wages are regulated by fixed and well-ascertained laws, and that these laws are as certain in their operations as those which control physical nature....

'I think that you are all sufficiently acquainted with the elementary principles of political economy to know that the circulating capital of a country is its wage-fund. Hence, if we desire to calculate the average money wages received by each labourer, we have simply to divide the amount of this capital with the number of the labouring population. It is therefore evident that the average money wages cannot be increased, unless either the circulating capital is augmented or the number of the labouring population is diminished....

'Since therefore it has been shown that the average rate of wages is regulated by a ratio between capital and population, we are naturally led to consider the causes which affect the increase and decrease of capital and population.' . . .*

The doctrine here enunciated and applied is no other than Mr. Mill's 'law' of wages,—in other words, the wage-fund theory. So certain is the operation of the natural law by which wages are controlled, that employers cannot be held responsible for the amount of wages they pay, whether sufficient or not for the proper maintenance of their labourers.
6 The funds available || for the remuneration of labour being limited, like the funds taken from a poor-box, and the law of nature which distributes those funds among all the labourers entitled to share in them being as 'certain in its operation as those which control physical nature,' employers,

* *Economic Position of the British Labourer*, pp. 119-121.

both individually and collectively, are not only undeserving of blame for paying low wages to their labourers, but they would be acting in defiance of a natural law if they paid their own labourers one farthing more than competition and want would induce them to accept.

Although, in the passages above quoted, the practical application of the theory is confined to that of relieving employers of responsibility in cases where their labourers are supposed to be underpaid, it is clear that the wage-fund principle equally involves the converse doctrine, that it would be altogether wrong to blame the labourer or labourers, in those cases (whenever they may occur), where he or they find themselves in such a strong position in relation to their employers, that they are able to compel them to give what would be supposed to be too high wages.

The normal relation between labour and capital, the law of the increase of population, the labourers' want of reserve funds, and the association of employers, render it, generally speaking, impossible for any large class of labourers to get the upper hand of their employers to such an extent as to compel them to give wages which would at the time be considered as extraordinarily high. In an early condition of society, however, such a state of things was by no means impossible, and
we know || that during a long period in our own island, when 7
food was abundant and labourers not much more given to hard work than the blacks of Jamaica, it was one of the customary functions of the Legislature to fix the rate of remuneration for which labourers should be bound to accept employment.

When, however, the demand for employment exceeds the demand for labour, as it does in almost every trade and profession in this country, competition on the part of the labourers is a sure preventive against any undue advance of wage, even in trades where it is under the control of well-organised association. Although doctors, barristers, lawyers, and other professional labourers occasionally manage to get a remuneration for certain services unconscionably high, when judged

by that customary standard which, however much it may be ignored by theorists, is the immediate basis on which the wages or remuneration of every trade and profession rests, such cases are too exceptional ever to call for a theory, having the direct object or effect of justifying the acquisition of high wages.

If, however, it would be equally absurd to blame the labourer for getting what might be supposed to be too high wages, as to blame the employer for paying what are supposed to be too low wages, a combination of labourers to raise their wages could never be objected to on the ground that the wages they claimed were too high, supposing that their employers were for a time able to pay them. If unsuccessful, such a proceeding might be condemned as having been foolish;
8 but if successful, the propriety of their conduct could || not be questioned on the grounds that the wages they obtained were exorbitant and out of proportion to those of other labourers, when considered in relation to the nature of their work.

The bearing of the wage-fund principle on the question of Trades-Unions and Strikes is very important, but its consideration here would only complicate our argument.

The most important practical objection to the wage-fund principle is, that it excludes altogether the influence of liberal principles from that field of social action, where it is for the interest of society that they should be ever most influential. It is a principle which forbids public opinion coming to the rescue of a depressed class, by awarding its just censure against those who themselves perfectly well know that they or their class are partly, if not entirely, responsible for the condition of the labourers whom they are employing, and whom they could without any ultimate loss to themselves raise to a condition of greater comfort, and one more tending to the general well-being of the community to which they belong.

The 'natural' or 'just' wage theory.

Ever since Adam Smith published his 'Wealth of Nations,' the truth of the 'natural wage' principle has been admitted by all writers, whatever may have been the confusion and in-

consistencies introduced into the theory of wages by the modern wage-fund doctrine.

According to the 'natural' or 'just' wage principle, the price of all the different kinds of labour, or the rate at which all the different classes of labourers in any society are remunerated (as well as the price of the || products of labour) is 9
regulated in the long run by the competition of labourers,—by the struggle for existence and for wealth on the part of that portion of the population who look to the sale of their labour, either for a livelihood, or for increasing those means which they already possess,—the wages of the lowest (generally speaking the agricultural) class being kept down by competition to some rate approximating to that which would afford the labourer and his family no more than a sufficient maintenance, and the wages of all the other classes being kept down by the same force to rates which would afford each class a just or proportionate remuneration for their labour, as compared with the labour and earnings of the other classes.

According to the same theory, the relation of the demand for to the supply of any particular class of labourers may be, as it very often is, such as to raise the wages of such labourers, by the mere action of competition on the part of their employers, from the usual or conventional rate, by which the natural rate is represented, to a much higher rate. Nor is it inconsistent with the theory to which this principle belongs, that combination or association on the part of either labourers or employers, for the purpose of controlling or correcting the injurious effect of competition, should be regarded as a force, by which wages are or may be regulated, of the same natural and normal character as competition itself.

If this short statement of the principle of 'natural,' 'relative,' or 'just' wages is correct, it is clear that this principle of science harmonises thoroughly with that || notion of wages 10
so universally recognised, according to which we speak of wages as being 'too high' or 'too low,' 'fair' or 'unfair,' 'reasonable' or 'unreasonable,' 'just' or 'unjust,' 'sufficient' or 'insufficient.'

The 'natural' or 'just' wage principle not opposed to the interference of public opinion for the protection of a depressed labouring class.

It is, moreover, perfectly in accordance with this theory that the wages of a particular class, e. g. the agricultural labourers of a particular county, such as Dorsetshire, may be reduced even by the competition of the labourers themselves, independently of any oppressive combination on the part of their employers, to a rate which both they and the public, and even some of their employers themselves, judge to be insufficient. Nor would this theory oppose any objection to the interference of public opinion, with the view of improving the condition of the labourers so depressed, by inducing their employers to raise their wages.

The problem of 'sufficiency' of wage, capable of solution, sufficiently precise.

It would, undoubtedly, be a very difficult task for any theorist to exhaust and explain the different classes of considerations which are required for the solution of the practical problem—sufficiency of wage—especially so to persons but little acquainted with the requirements of trade, and with the requirements of labourers. It should, however, be borne in mind, that this problem, as it arises from time to time in actual life, involves the consideration of no other matters than such as lie within the cognizance of the parties interested, nor offers a wider field for doubt, dispute, or error, than such as lies between two figures, not far apart in the numerical scale, one of which would be admitted by both parties to
11 be too high, and the other too low. ||

Farmers and landlords may have very wrong notions as to the amount of wages which a true economy would require that their labourers should have, but no English farmer would hesitate to say that six shillings a week would be insufficient wages in these days; nor would any farmers in this country attempt to reduce their wages to such a rate, even supposing that they could get their labourers to accept such wages, and that the labourers could maintain life upon it. Sixpence and eightpence a day have been common wages for labourers in Ireland during the last half century; nor could any one say that Englishmen could not exist on the same pittance. How much work would be got from them on such wages would be another question.

Practical objections and obstacles to the successful interference of public opinion for raising the wages of a depressed class.

Assuming, however, that the wages of the Dorsetshire labourer, for instance, were at the present time 'insufficient,' what would be the objections to their being raised gradually to twelve or fifteen shillings a week, by the concerted action of either the farmers and landlords, or the labourers themselves? Let us first notice some of the practical objections and obstacles to any such proceeding.

It might be urged that the landlords and farmers of Dorsetshire would be losers, while an increase of wage would not add to the capabilities or usefulness of the labourer; that they would spend more money in the beershop, and do less work than they do now; that the poor-rates would be quite as high, and old hurdles no safer than at present.

Even supposing that an increase of wage, if effected, || 12
would be advantageous to the three classes collectively, and so to the country, there would be practical difficulties in the way of bringing it about. The labourers could not succeed in a strike for want of funds. Landlords, although they may sometimes require their tenants to hold the same political or religious opinions as themselves, are very seldom in the habit of requiring them to pay sufficient wages to their labourers. Farmers, as other employers, would be very averse to raising wages when not compelled to do so, either by a strike or by an actual dearth of labour.

It might perhaps be objected, that there were no funds from which an increased wage could be drawn; that the land on which the labourers are employed is so poor that it produces little or no rent, while the farmers are only just able to carry on their agricultural operations even at the present low rate of wages; or that the farmers have little or no capital anterior to the sale of their corn, and that the money which they then obtain is almost all swallowed up by the rent.

Such are some of the practical questions which would be raised by a proposal to bring about an increase of the wages paid to any class of agricultural labourers.

In the case of a manufacturing trade, where the landlords' share in the produce of labour is immaterial, some of the

considerations here noticed, and others having reference to the consumers' demand and foreign competition, would be involved in any scheme for raising wages, whether it be on the
13 part of the labourers or of their employers. ||

Difference between the above objections and the absolute objection of the wage-fund theorist.

Now, the reader will see that these objections are essentially objections of a practical nature—objections which would be true or false, sound or frivolous, according to the circumstances or special conditions affecting any particular case. I have noticed them merely for the purpose of showing more forcibly the difference between these objections and that absolute objection, of universal application, which the wage-fund principle opposes to any attempt on the part of employers or labourers either to raise the wages of any depressed class, or even to prevent their being reduced too low.

According to this doctrine of political economy, however easily and successfully any scheme for protecting or raising the wages of a particular class of labourers might be carried out, and however advantageous such a measure would be, so far as regards a particular class of labourers or the permanent interests of a trade, any and every such measure must be wrong and pernicious. It would be wrong, because it would be an interference with the operation of a natural law. It would be pernicious, because it must *ex necessitate* keep some labourers, somewhere or other, altogether out of the employment which they would otherwise have.

'Others again (but these are rather philanthropists interesting themselves for the labouring classes than the labouring people themselves) are shy of admitting the interference of authority in contracts for labour; every employer, they think, ought to give sufficient wages, and if he does it not willingly, should be compelled to do it by general opinion; the test of sufficient wages being their own feelings, or what they suppose to be those of the
14 public. This is, I think, a fair || representation of a considerable body of existing opinions on the subject.

'I desire to confine my remarks to the principle involved in all these suggestions, without taking into account the practical difficulties, serious as these must at once be seen to be. *I shall suppose that by one or the other of these contrivances wages could be kept above the point to which they would be brought by com-*

petition; this is as much as to say, above the highest rate which can be afforded by the existing capital, consistently with employing all the labourers.' *

All what labourers? all the agricultural labourers in a particular parish or county, such as Dorsetshire? or all the agricultural labourers in the country or in Europe? or all the labourers of the different classes and trades in Dorsetshire or in the country?

That the same number of labourers can be employed in any particular district or trade, when their wages have been increased by combined action on the part of the labourers or employers in such district or trade, is proved in every case where the wages of any class of labourers have been raised—whether from a strike or amicable arrangement between the labourers and their employers—(and it rarely happens that the wages of any class of labourers are raised, except by the concerted action of both the labourers and employers), and the same number of labourers have been employed.

So also the question, whether the ' existing capital,' or wage-fund, or the wealth at the disposal of the employers of any district or trade, for the purpose of || paying wages, is suffi- 15
cient to enable them to increase wages, and yet employ the same number of labourers, is a simple question of fact, which, whether ascertainable or not in any particular cases, prior to an increase of wages, is at once answered in the affirmative, in all those cases where wages are raised and the same number of labourers continue to be employed.

It is clear, however, that Mr. Mill does not mean by ' existing capital,' the wealth, capital, or means only of the employers in a particular district or trade; nor by ' all the labourers,' the labourers confined to such district or trade; he is referring to some supposed definite amount of capital, and some supposed definite number of labourers, of which the capital and labourers in any particular district or trade only form parts. The ' existing capital ' by which wages are limited, and ' all

* Mill's *Principles of Political Economy*, Book II. chap. xii. sect. 1.

the labourers' among whom it would be distributed by the supposed law of competition, if not interfered with, are, according to the theory, the total capital or wage-fund of a country, and the total labouring population of that country:—

> '*Since therefore the rate of wages which results from competition, distributes the whole wages-fund among the whole labouring population, if law or opinion succeeds in fixing wages above this rate, some labourers are kept out of employment.*' *

Such then is the practical application or teaching of the wage-fund principle, when unpalliated by illogical modifications. Employers should always pay their labourers the
16 lowest wages which their competition, || coerced by their necessities, would induce them to accept. Labourers should abstain from all agreements as to the wage which they demand of their employers, as rival tradesmen in Oxford Street, who are competing to the death, abstain from agreeing as to the list of prices with which they placard their shop windows.

Let us now ascertain more completely what the wage-fund principle is, as enunciated by Mr. Mill and Mr. Fawcett.

Mr. Mill's theory of the laws of wages more fully shown.

Mr. Mill exhibits his theory of the laws of wages in four chapters. The first three chapters are devoted to the consideration 'of the causes which determine or influence the wages of labour generally,' or '*en masse.*' In the fourth chapter on the subject, he treats of the wages or remuneration of 'different kinds of work, which are habitually paid at different rates, depending in some degree on different laws.' The language and principles of this latter chapter, which is merely an enlargement of a corresponding chapter of Adam Smith's work, are for the most part in accordance with the theory that the remuneration of labour is, in the main, regulated by the competition of labourers, independently of any definite fund by which the amount of their aggregate earnings would be limited. It is clear, however, from the language as well as the arrangement of these chapters, that the author does not treat the subject, as considering that the total amount

* *Id. loc.*

of wealth enjoyed by the labourers of a community at any given time or during any period, should be regarded merely
as the aggregate of their earnings; but || that this total amount 17
would be determined independently altogether of the number of the labourers, and the nature of the work they performed, by some cause operating prior to, and independently of, the several contracts between employers and labourers, by which the wages of individual labourers would be from time to time fixed;—the function assigned to competition being confined to that of distributing a certain definite amount of wealth, called the wage-fund or capital of a country, among all the labourers seeking employment in it.

In accordance with this view, Mr. Mill divides his theory of wages into two parts. In the first part he enunciates the supposed general law, taking as his two terms, (1) the aggregate wage-fund of a country, and (2) the aggregate body of labourers who work for hire in such country.

In explaining the operation of this general law, he ignores the difference in the kinds of labour or trades, of which the whole supply of labour or body of labourers is composed, and treating them as a body of 'general' labourers, shows how the supposed 'general' or 'average' rate of wage to be received by the several individuals who compose the whole body, is determined. In the second part he treats of the 'law' which governs the differences in the remuneration of the different trades and professions of which the whole labouring body is actually composed; the doctrines of which part, as I have already observed, do not directly involve the wage-fund principle.

The wage-fund principle or law forms the subject of || the 18
eleventh chapter. The following passages will put Mr. Mill's theory fully before the reader:—

'Under the head of wages are to be considered the causes which determine or influence the wages of labour generally; and secondly, the differences which exist between the wages of different employments. It is convenient to keep these two classes of considerations separate, and in discussing the law of wages, to pro-

ceed in the first instance as if there was no other kind of labour than common unskilled labour of the average degree of hardness and disagreeableness.

'Wages, like other things, may be regulated either by competition or by custom. In this country there are few kinds of labour of which the remuneration would not be lower than it is, if the employer took the full advantage of competition. Competition, however, must be regarded, in the present state of society, as the principal regulator of wages, and custom and individual character only as a modifying circumstance, and that in a comparatively slight degree.

'*Wages then depend mainly upon the demand and supply of labour; or, as it is often expressed, on the proportion between population and capital.* By population is here meant the number only of the labouring class, or rather of those who work for hire; and by capital only circulating capital, and not even the whole of that, but the part which is expended in the direct purchase of labour. To this, however, must be added all funds which, without forming a part of capital, are paid in exchange for labour, such as the wages of soldiers, domestic servants, and all other unproductive labourers. There is unfortunately no mode of expressing in one familiar term the aggregate of what may be called the wages-fund of a country; and as the wages of productive labour form nearly the whole of that fund, it is usual to overlook the smaller and less important part, and to say that wages depend upon population and capital. It will be convenient to employ this expression, remembering, however, to consider it as elliptical and not as a literal statement of the entire truth. *With these limitations of the terms, wages not only depend upon*
19 *the relative amount || of capital and population, but cannot, under the rule of competition, be affected by anything else.* Wages (meaning of course the general rate) cannot rise but by an increase in the aggregate funds employed in hiring labourers, or a diminution in the number of competitors for hire; nor fall, except either by a diminution of the funds devoted to paying labour, or by an increase in the number of labourers to be paid.' *

This last statement of the principle is worded in such a manner, that it does not commit the writer to the assertion of any more abstruse or questionable doctrine, than the simple arithmetical truism that the general or average rate of wages earned by any aggregate body of labourers (if it be possible

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* *Principles of Political Economy*, Book II. chap. ix. sect. 1.

to conceive such a thing as an average or general rate of wage of all the different labourers of a country, any more than an average or general price of all the different commodities and goods in a country) cannot be raised, unless either the amount of the funds *actually employed* in paying wages is increased, or the number of persons among whom those funds are distributed is diminished.

Of course Mr. Mill does not mean this. The following passage shows more precisely what he does mean:—

> **'Nothing can permanently alter general wages, except either an increase or diminution of the capital itself (always meaning by this term funds of all sorts *destined for* the payment of labour), compared with the quantity of labour offering itself to be hired.' * [3]**

These passages from Mr. Mill's work contain a complete
enunciation of his wage-fund principle or law, the truth or
reality of which would seem to involve the || soundness of his 20
entire system, however true and valuable may be many of
the particular principles and dissertations contained in his
treatise.

Let us extract a few of the assertions which are either expressed or implied in these passages, and on the truth of which the truth of the wage-fund doctrine as an abstract principle of a natural, social, or economic science depends. The practical applications which both Mr. Mill and Mr. Fawcett have given to the principle, in the passages previously quoted, prove conclusively that they do not regard their systems of political economy merely as those of an hypothetical science, the elements of which are not supposed to represent causes which have any existence or operation in real life.

According to this theory of the 'laws' or causes by which the wages of labour are determined, (1) There exists in every country, at any given time, a definite fund, called the wage-fund or capital of the country, *which fund is distinct from the general wealth of the country,* being limited to such por-

* Chap. xi. sect. 2.

tion of its wealth as is *destined* for the purchase of labour
in it. (2) The labouring population of a country consti-
tutes a body of labourers among whom such fund can be dis-
tributed by competition. (3) The wages of all the labourers
of a country, the 'soldiers,' 'domestic servants,' and other
'unproductive' labourers, as well as the productive labourers,
are limited by the total amount of the wage-fund; and the
wages of the 'productive' labourers are limited by the amount
of that portion of it which is 'capital.' (4) This 'law' of
21 wages is || only an application of the principle of demand and
supply:—the 'capital' of a country being the 'demand' for
labour (i. e. productive labour) in the country, and the la-
bouring population being the 'supply' of labour. The rela-
tion between the total demand for and the supply of labour
is the same as that between a demand for a commodity, such
as corn or beef, and the supply of such commodity. As the
effect of competition between the several buyers and sellers
of a commodity is, that the whole supply is sold at an average
price, such price being the highest at which the whole supply
can be sold, so the competition of the buyers and sellers of
labour would, if left perfectly free, secure the employment of
the whole labouring population at the highest possible rate of
wages compatible with their being all employed. In other
words, the employers would overbid each other until the whole
wage-fund was spent, and thus give the utmost possible
amount of wages to the labourers; and the labourers would
undersell each other so far only as would enable the whole
supply of labour to be bought, i. e. the whole labouring popu-
lation to be employed.

The theory is a very satisfactory theory for employers, as
it supplies the most powerful argument against combination,
which, however useful and necessary to the labourer, is adverse
to the proximate interests of employers, as regards their deal-
ings both with labourers and customers. For as cheap labour
enables one rival employer to undersell another in the goods
market, it is never the interest of employers to maintain a
22 particular || scale of wages, except when compelled to do so

for the purpose of protecting themselves against the combination of their labourers.

The wage-fund principle false as an abstract principle

The theory however is altogether false even as an abstract principle, and for these reasons—

(1) Because the capital or wealth applicable to the payment of the wages of labour in a country, at any time or during any period, does not consist of a definite fund *distinct from its general wealth,* nor of a fund which is '*destined*' for the purchase of labour.

(2) Because the dependent or labouring population in a country, at any time or during any period, does not constitute a supply of labour or body of labourers, among whom the aggregate wage-fund or capital of a country could be distributed by competition.

(3) Because the supposition that such wage-fund would be all distributed among the labourers of a country (if they could be treated as 'general' labourers, capable of competing with each other) by the competition of the buyers and sellers of labour, if allowed free operation, involves an erroneous notion of the demand and supply principle.

Third objection considered first.

We will consider the last objection first.

The following passages from Mr. Mill's and Mr. Fawcett's works, where they allege that the wage-fund principle is the same as that of demand and supply, and that the price of labour is determined in precisely the same way as the price of goods, will show the reader that the wage-fund law is based upon an entirely erroneous conception of the demand and supply principle; and a conception which is expressly condemned by these same || writers, when explaining the mean- 23
ing and operation of that principle, in apparent forgetfulness of the use to which they have put it in their theory of wages.

In the following passage Mr. Mill asserts the analogy between the operation of competition on the price of goods and of labour:—

'I shall suppose that by one or other of these contrivances wages could be kept above the point to which they would be reduced by competition. This is as much as to say, above the

highest rate which can be afforded by the existing capital consistently with employing all the labourers. For it is a mistake to suppose that competition merely keeps down wages. It is equally the means by which they are kept up. When there are any labourers unemployed, they, unless maintained by charity, become competitors for hire, and wages fall; but when all who were out of work have found employment, wages will not, under the freest system of competition, fall lower.* There are strange notions afloat concerning the nature of competition. Some people seem to imagine that its effect is indefinite, that the competition of sellers may lower prices, and the competition of labourers may lower wages down to zero or some unassignable limit. Nothing can be more unfounded. ***Goods can only be lowered in price by competition to the point which calls forth buyers sufficient to take them off; and wages can only be lowered by competition until room is made to admit all the labourers to a share in the distribution of the wage-fund. If they fell below this point, a portion of capital would remain unemployed for want of labourers, a counter-competition would commence on the side of the capitalists, and wages would rise.'*** **†**

24 In the above passage, the writer asserts an analogy || between the cause which arrests a fall in the price of goods and that which arrests a fall in the wages of labour, but avoids an express assertion of a definite purchase-fund, bearing a similar relation to the supply of goods to that which the wage-fund is supposed to bear to labour.

The 'demand' for a commodity not a fund which must or will be all spent in its purchase

Now it is clear that, even in that part of the passage where Mr. Mill explains the operation of competition on the price of goods, he is appealing to the truth of an abstract principle to refute the practical truth of what he calls 'strange notions concerning the nature of competition.' True, in theory, the competition of sellers would not reduce the price of any given supply of a commodity below that price which would enable the sellers to dispose of the whole supply; but there is nothing in actual trade, except the judgment of the sellers themselves,

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*** The price of labour undoubtedly cannot be reduced by competition, when the labourers are all employed, any more than the price of goods when they are all sold.**

† Book II. chap. xii. sect. 1.

to prevent them letting their goods go, in their eagerness to
sell them, at a lower rate than would be necessary to sell the
whole. Let us suppose that 1000 bushels of oysters constituted
a supply of oysters, for which there was such a demand that
the whole supply could be all sold at 1*s.* 6*d.* per score, and that
this supply is distributed among a number of sellers who are
competing against each other. Suppose some or all of them
miscalculate the demand and offer their oysters at 1*s.* a score,
in order to get customers, the whole 1000 bushels might cer-
tainly be sold at that rate instead of the higher rate. That
a counter-competition on the part of the buyers would set in
to correct any such error on the part of the sellers would be
an unwarrantable assumption in respect of any com- || modity, 25
but it would be preposterous in the case of labour.

Suppose the commodity were beef, and that there was during a certain period, or in a particular district, such a demand for beef that the then existing supply might be sold at 1*s.* per pound; in other words, that there were persons able and willing to buy the whole supply at that price rather than go without. If the butchers, instead of selling their beef at 1*s.*, sold it at 8*d.* per pound, a portion of the supply would *probably* fall into the hands of other purchasers, viz. a poorer class, who would not have given a shilling per pound. If it did, the supply would be diminished without satisfying the demand of those persons who would have paid the higher price for it. But if these persons would have bought the whole supply for 1*s.*, some of them would *probably* be ready to give a still higher price for the smaller quantity which was left for them. In such case a counter-competition would commence on the part of the consumers or purchasers of beef, and the price would rise.

Suppose, on the other hand, that the commodity was labour, or rather 'labourers,' as Mr. Mill puts it, and that the labourers were workmen seeking employment in some common productive trade. In the first place, the capitalists, or possible purchasers or employers, would be a very limited body, so that however low might be the rate of wage at which some

of the labourers accepted employment, they would necessarily be satisfying the demand of those very persons who would,
26 *ex hypothesi*, have given a higher wage if com- || pelled. In the second place, the employment of a portion of the labourers at a low wage, instead of tending to raise the value of the rest, would operate most powerfully to prevent the other employers, whose demand for labour was not satisfied, from giving a higher wage than the labourers already hired were receiving; for whatever additional wage they gave would be dead loss to them, as compared with the lower cost at which their rival traders were getting or had got their goods made, supposing at least that they were all supplying the same goods market.

The fallacy in the above passage consists, not in treating a 'demand' for labour and for goods as a definite sum, but in treating that sum, in the case of the 'demand' for labour, as a sum which would all be spent in labour, notwithstanding the purchase of a part of the supply with a smaller portion of it than would represent the proper price of the part bought, as determined by the proportion between the whole supply and the money-measure of the original demand. Suppose the consumers of a commodity would give 1000*l*. for a given supply, such sum would only represent the amount of money which they would give rather than go without it; but if they or any of them could get any part of it at a price less than the assumed proportionate price, the money so saved, instead of going to increase the value of the residue, would be absolutely lost to the sellers. Mr. Mill's theory would require the lucky purchasers who got their goods too cheap to give the money thus saved to the other consumers, and that then their
27 demand for or want of the remaining supply would || be such as to induce them to pay the whole of the increased funds thus at their disposal in the purchase of that remaining part;—a supposition which is simply absurd. As a matter of fact, the question whether the price of the residue would rise at all, or whether it would rise to such a price as to balance the supposed money-measure of the original demand,

would depend upon the means and inclinations of the purchasers of that residue, i. e. upon the demand for that residue, independent altogether of the amount of the original supply, and the value of the original demand.

The false notion that the variation in a supply of a commodity ought to produce a *proportionate* variation in the price.

It appears from Mr. Mill's speech on the Cattle Plague Bill, that he still sometimes holds this strange belief, with regard to the necessary expenditure of the whole fund, which the money-measure of the demand for a particular commodity, at a given time, would represent:—

'And now came another question, and that was, in what manner and at whose expense the funds for compensation ought to be raised. In order to judge that, they ought to consider what would be the natural working of *economical laws*, supposing no compensation were granted at all. If they took into consideration the ultimate, or rather the speedy result, *there could be no doubt that in whatever proportion the supply of cattle was diminished, in that proportion the price would be enhanced.*' *

There would be but little doubt in any country that if the supply of such a commodity as beef was much diminished, the price of beef would rise, owing to an increased competition on the part of consumers, or a diminished competition on the
part of the sellers. But the || only reason why a diminution 28
in the supply of beef by the cattle plague should produce a *proportionate* variation in its price, would be that the demand, or the money-measure of the demand for beef being a definite sum, the whole of which would be spent in its purchase whatever variation might take place in the quantity of the supply, the price at which the beef would be sold would rise in a precise inverse ratio to the diminution in its quantity. When asked to explain the economical law, the natural working of which would be to produce a rise in the price of beef proportionate to the loss of cattle, Mr. Mill at once withdrew from his position:—

'In the next place, my honourable friend stated that it is not always the case that the scarcity of a commodity raises the price in full proportion to its loss. Well, Sir, that is very true; but

* *Times*, Feb. 15.

I know that it is an extremely common thing that the effect should be to raise the price *a great deal more than the proportion.*' *

The difference between these two statements might be no more than that the former expressed a true abstract law, while the latter expressed the mode in which the law operated under the disturbing influences of actual life. If, however, no cause existed at all of a nature to produce a rise in the price of beef proportionate to the diminution of the supply, the supposed economical law would be a fiction.

The notion that a variation in the supply of beef would produce a *proportionate* variation in its price, was evidently based upon the erroneous assumption that the demand, or
29 its money measure, would remain the same. || But as the 'demand' for a commodity is susceptible of variation from hour to hour and from day to day, according to the inclinations and means of the consumer, the supposed 'economic law' was a fictitious law.

Mr. Mill's own explanation of the operation of supply and demand inconsistent with the notion that 'demand' is a fund, the amount of which remains the same independent of variations in the supply.

The following passage from Mr. Mill's 'Principles of Political Economy,' where he explains the meaning and operation of demand and supply, expressly condemns the supposition that a variation in a supply of a commodity will produce a *proportionate* variation in its price:—

'Let us suppose that the demand at some particular time exceeds the supply, that is, there are persons ready to buy at the market value a greater quantity than is offered for sale. Competition takes place on the side of the buyers, and the value rises; but how much? In the ratio, some may suppose, of the deficiency. If the demand exceeds the supply one-third, the value rises one-third. By no means; for when the value has risen one-third, the demand may still exceed the supply; there may even at that higher value be a greater quantity wanted than is to be had, and the competition of buyers may still continue. If the article is a necessary of life, which rather than resign, people are willing to pay for at any price, a deficiency of one-third may raise the price to double, triple, or quadruple. *Or, on the contrary, competition may cease before the value has risen in even the*

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* *Times*, Feb. 17.

proportion of the deficiency. A rise short of one-third may place the article beyond the means or beyond the inclinations of purchasers to the full amount.'

This explanation of the possible operation of competition on the price of a commodity, in the case of a variation in its supply, is directly contradictory to the notion that the demand for a commodity is a definite fund, the whole of which would necessarily be applied in its purchase, whatever diminution
might take place || in the supply: for if in the case of a defi- 30
ciency in the supply of a commodity to the extent of one-third, a rise in the price short of one-third may have placed the article *beyond the means* of the purchaser, the demand or its money measure could not have remained the same; for if it had, the purchasers would necessarily have had *the means* wherewith to purchase the diminished supply, at a price fully one-third higher than that of the original supply.

Mr. Mill's explanation of the demand and supply principle condemnatory of his wage-fund principle.

The following passages from the same chapter (whether they give a true explanation of the principle or not) directly contradict that notion of the demand and supply principle, which is expressly stated by Mr. Mill to be the principle of his law of wages:—

'The supply of a commodity is an intelligible expression; it means the quantity offered for sale, the quantity that is to be had at a given time and place by those who wish to purchase it. But what is meant by demand?—not the mere desire for a commodity. A beggar may desire a diamond; but his desire, however great, will have no influence on the price. Writers have therefore given a more limited sense to demand, and have defined it—the wish to possess combined with the power of purchasing. To distinguish demand in this technical sense from the demand which is synonymous with desire, they call the former effectual demand. After this explanation, it is usually supposed that there remains no further difficulty, and that the value depends on the ratio between the effectual demand, as thus defined, and the supply.

'These phrases, however, fail to satisfy any one who requires clear ideas and a perfectly precise mode of expressing them. Some confusion must always attach to a phrase so inappropriate as that of a ratio between two things not of the same denomina-

31 tion. What ratio can there be between a quantity and a desire, or even a desire combined with a power? A ratio between demand and supply is only intelligible if by demand we mean the quantity demanded, and if the ratio intended is that between the quantity demanded and the quantity supplied. . . .

'Thus we see that the idea of a ratio as between demand and supply is out of place, and has no concern in the matter: the proper mathematical analogy is that of an equation. Demand and supply, *the quantity demanded* and the quantity supplied, will be made equal. If unequal at any moment, competition equalises them, and the manner in which this is done is by an adjustment of the value.' *

These passages then assert that the 'demand' that affects the price of goods is not merely the desire for them, or the desire coupled with a power, but the *quantity of goods* wanted by purchasers. For '*a ratio between demand and supply is only intelligible if by demand we mean the quantity demanded, and if the ratio intended is that between the quantity demanded and the quantity supplied.*'

The demand for a commodity, then, is not the quantity of money wherewith it is to be purchased, but the quantity of the commodity itself wanted by purchasers. But what is Mr. Mill's law of wages? 'Wages then depend upon the demand and supply of labour or as it is often expressed, *upon the proportion between population and capital.*' With an unaccountable forgetfulness of having previously used the demand for the 'commodity labour' in the very way which he had just condemned, Mr. Mill thus refers to his law of wages in the end of the chapter from which the above passage is
32 quoted:— ||

'Finally, there are commodities of which, though capable of being increased or diminished to a great and even to an unlimited extent, the value never depends upon anything but demand and supply. This is the case in particular with the commodity labour, of the value of which we have treated copiously in the preceding book.' †

Mr. Mill leaves to his readers to reconcile, if possible, the two uses of the term 'demand,' and to extricate him from a

* Book III. chap. ii. sect. 3, 4. † Sect. 6.

difficulty, the solution of which would have discovered the error of his theory of wages, and the unreality of the entire system on which that theory was based.

Mr. Fawcett's explanation of the wage-fund and the demand and supply principles equally inconsistent.

The following passages from Mr. Fawcett's works will show that this writer also, when explaining the wage-fund principle, asserts its identity with the principle of supply and demand, and then gives an explanation of the meaning of a 'demand' for a commodity directly antagonistic to the notion that the 'demand' for labour is capital:—

'In previous chapters we have been careful to show that capital is the fund from which labour is remunerated. It thus becomes obvious that wages in the aggregate depend upon a ratio between capital and population. If the number of the labouring population remains stationary, wages cannot rise unless the capital of the country is increased; but if, on the other hand, there is an increase in the number of the labouring population unaccompanied with any augmentation in the capital of the country, then wages must decline. The truths which have been thus stated are in popular language expressed somewhat differently, for wages are commonly said to be regulated by supply and demand. This we shall be able to show means the same thing, but "supply and demand" is one || of those hackneyed phrases which are not un- 33
frequently employed by those who have no accurate knowledge of political economy. Let us, in the first place, enquire what is the meaning of the expression "demand for labour" and "supply of labour." A demand for labour can only be caused by those who have the means of remunerating the labourer. But the remuneration which is intended to be given to the labourer is capital, and therefore those only can exert a demand for labour who can apply capital for the remuneration of labour, and the greater is the amount of capital to be applied in this manner, the greater will be the demand for labour. It therefore appears that the expression "demand for labour" may be replaced by some such phrase as "capital seeking to be devoted to the employment of labour." Again, the supply of labour may be estimated by the number of those who are anxious to labour, and consequently an increase in the supply of labour is equivalent in its meaning to an increase in the numbers of the labouring population. *When, therefore, we say that wages depend on the ratio between capital and population, we state the same principle as those who affirm that wages are regulated by demand and supply.**

* *Manual of Political Economy*, Book II. chap. iv. p. 152.

'*If it was more clearly understood that the price of labour was regulated in the same way as the price of any commodity, such as wheat, by demand and supply,* professed philanthropists would cease to talk idle nonsense about hard-hearted employers; and the labourers themselves would at once see what is the origin of their poverty, and what are the means which would be effectual in improving their condition. If a commodity declines in the price, it must be because the demand for it is diminished or its supply is increased. If it is desired to advance its price, the demand must be augmented or the supply diminished. In the same way, if it is desired to raise the rate of wages, either more capital must be invested in industry, or the number of the labouring population must be diminished.*

34 'Let us enquire what determines the price of Mr. Turner's || pictures. The price is usually supposed to be regulated by demand and supply . . . . If the question were asked what regulates the price of Mr. Turner's pictures, it is not improbable that even many writers on political economy would say that the price is regulated by the ratio which exists between the supply of these pictures and the demand which exists for them. *But it surely must be erroneous to speak of a ratio between demand and supply; there cannot be such a ratio, for the supply in this case means a certain number of pictures, and demand in this case means a desire to possess a picture. It is therefore absurd to attempt to establish a ratio between a picture and a desire to possess it. A ratio can only exist when the two things compared are of the same kind.*' †

In these passages Mr. Fawcett asserts expressly that the principle of political economy—that the price of labour is governed by the ratio between capital and population, is the self-same principle as that the price of labour is governed by 'demand' and supply—is the self-same law as that by which the price of wheat is governed; yet, in explaining the meaning of the supply and demand principle, as applied to such a commodity as Turner's pictures, he tells us that the notion of a ratio between demand and supply is absurd. Why, then, is not the notion of a ratio between the demand and supply of labour equally absurd?

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* *Economic Position of the British Labourer*, p. 136.

† *Manual of Political Economy*, Book III. chap. ii.

The bearing of the true demand and supply principle on the price of labour.

The wage-fund principle, although somewhat similar to the principle of demand and supply, probably did not originate so much in the misconception of that principle, as in the notion that the wages of productive labourers are limited by the amount of those funds which are at any given time so conditioned as to be applicable || to maintaining labourers and 35
carrying on production. If the circulating capital of a country did constitute a definite portion of its wealth, to which the wages of productive labourers were confined, the amount of such capital would determine the aggregate wage-fund of a country at any given time, whether the labourers could get it all or not.

Suppose, then, that such fund would represent the utmost amount which at any given time the whole body or supply of labourers could get for their labour, such fund would represent the money-measure of the demand for labour in a country at such time. But even so, the wage-fund principle would be a false principle. For such money-measure of the demand for labour would only represent the amount of wages which at any given time the labourers in a country *could* get; it would not represent a certain amount of wealth, which *would or must* be distributed by the competition of sellers and buyers of labour, any more than the money-measure of the demand for oysters or beef at any given time represents a certain sum of money which the sellers of oysters or beef must get from their customers, at whatever price some of them sell their oysters or beef. The total amount of money which the labourers could possibly get would be limited by the amount of the wage-fund; but whether they got all that wealth, or only half of it, would depend solely upon whether they let their labour go at its proper or half its proper price. Although employers could, *ex hypothesi*, give the amount of the wage-fund, || there would be no cause whatever, according to the 36
true theory of the demand and supply principle (as now sufficiently explained for the purpose of our present argument), to induce, much less compel, them to give one farthing more than the smallest quantity of wealth or money for which they

could get the labourers to do the work they wanted. That is, the amount of the aggregate wage-fund, which would exist at any given time or during any given period, would have no bearing on the amount of wages to be obtained either by the whole body or by individual labourers, except so far as it would represent the aggregate sum which all the different labourers of a country would be able to induce or compel their several employers to give them, whether assisted or not by combination.

The competition of employers may undoubtedly prove the true limits of the wage-fund in a particular trade at a time when the supply of labour happens to be much less than the demand for it. But to suppose this state of things to be normal, natural, or permanent, is to ignore the law of the increase of population, according to which man's reproductive propensity, the struggle for a means of living, and his desire to find a livelihood for his children, are ever tending to keep up the number of competitors for employment in all trades somewhat in excess of the demand for labour.

The normal relation between the supply of labour and the demand for labour is directly the reverse of that between a
37 supply of goods and a demand for || goods. For as the production of goods is under the immediate control of the producer, who does not waste his money in producing things for which he does not see a lucrative market, it is only from mis-calculation that the quantity of any supply of goods is so much in excess of the demand that they cannot be disposed of at least at their cost price.

First head of objections considered. Capital not distinct from wealth.

Let us now consider our first head of objections, viz. that the capital of a country is not a definite fund, *distinct from the general wealth of a country*, nor a portion of its wealth, which is *destined* for the purchase of labour, previously to the contracts by which the wages of productive labourers are from time to time fixed; and that the wages of labourers employed in the productive trades of a country are not limited by the amount of the funds which come within the category of capital, either according to the definition of capital given by

Mr. Mill and Mr. Fawcett, or according to the ordinary meaning of that term.

Although the passages already quoted contain abundant evidence that Mr. Mill does not mean by the expression '*destined funds*,' funds *destined* in a metaphysical sense, i. e. funds which will be paid in the purchase of labour, and so become wages, he has not in any way explained in what way, by what acts or causes, a definite portion of the wealth of a country is destined or devoted to the special purpose of paying the wages of its labourers.

It appears from these passages, that the whole or aggregate wage-fund consists, || 38

(1) Of funds which, he says, constitute its largest portion, and which he calls capital; which funds are destined for the payment of productive labourers.

(2) Of funds, destined for the remuneration of that very miscellaneous class of labourers comprised in the category of unproductive labourers, such as domestic servants, soldiers, &c.

Whatever might have been the way in which Mr. Mill would have explained the destination of the wage-fund as regards the unproductive labourers, such as soldiers, &c., he has avoided the difficulty by treating the aggregate wage-fund and its recipients as sufficiently represented by capital, and the labourers who are supposed to be paid out of capital, viz. the working classes of a community.

Let us accordingly confine our attention solely to those labourers who are employed in the production of wealth in the normal course of trade, and the causes by which the production of wealth, and the remuneration of labour so employed, is regulated.

Now if we turn to Mr. Mill's definition and explanation of the thing which he calls 'capital,' we shall see that the notion that the funds out of which productive labourers are paid, and by the amount of which they are limited, are certain funds destined for that purpose, prior to their being actually

Mr. Mill's theory of capital.

employed in the payment of wages, is the very basis of his theory of the production and increase of wealth.

The 'capital' of a country, according to the conception of that species of wealth presented by Mr. Mill, is not commen-
39 surate with its wealth:— ||

'Wealth may be defined, all useful and agreeable things which possess exchangeable value.' *

Only a portion of the wealth existing in a country at any given time would come within the category of 'capital:'—

'What capital does for production is to afford the shelter, protection, tools, and materials which the work requires, and to feed and otherwise maintain the labourers during the process. These are the services which present labour requires from past, and from the produce of past labour.' †

This general description of capital accords with the meaning in which the term is generally used.

The common meaning of the term 'capital.'

Wealth or money used in production of wealth, or in the production of a revenue, is called capital, and wealth or money which is so conditioned as to be applicable to such a purpose, is called capital. Wealth or money to be used by a person in learning a trade might be called his capital. The means or money by which labourers are maintained while they are at work producing other wealth, whether for themselves or for their employers, and whether the money or means so used came from some private stores of their own (as in the case of a cooperative society or an independent workman), or whether it had been obtained from their employers, in the shape of wages for work previously done, such means might be called their capital. Whether such means were used in buying food or tools, in either case it would be used as capital, it would be used as a means for producing wealth. So wealth
40 or money || applicable to, or applied in, the purchase of labour, or the materials required in any productive operation, by the employers or capitalists of a country, is called capital, because

* *Vide* Introduction to *Principles of Political Economy.*

† Book I. chap. iv. sect. 1.

it is applicable to, or applied in, the production or increase of wealth.

Mr. Mill's definition of capital as funds 'destined' for production.

So far so good. The next sentence, however, from the same passage, exhibits that special theory, as to the constitution of capital, which, I submit, is the basis of an entirely fictitious and erroneous system:—

'Whatever things are *destined* for this use, *destined* to supply productive labour with the various requisites, are capital.'

This last proposition involves not merely a question of words, but a question of things. It asserts, in perfect accordance with the wage-fund theory, that the wealth employed from time to time in production has been separated and set apart from the general mass, prior to its actual use, by being 'destined' for that purpose.

The means, act, or cause by which wealth is supposed to be destined for production, and so converted into 'capital,' appears clearly from the following passage:—

'The distinction, then, between capital and not-capital does not lie in the kind of commodities, but in the *mind of the capitalist*, in *his will to employ* them for one purpose rather than another; and all property, however ill-adapted in itself for the use of labourers, is a part of capital so soon as it, or the value to be received from it, is set apart for productive employment. The sum of all the values *so destined* by their respective possessors composes the *capital of the country;* whether all those values are 41
in a shape directly applicable to || productive uses, makes no difference. *Once appropriated to that end, they do not fail to find a way of transforming themselves into things fitted to be applied to it.'* *

It is impossible, after reading this passage, to have any doubt as to the meaning and force Mr. Mill gives to the word 'destined.' So far from the 'destination' of wealth for productive operations being synonymous with the 'application' of wealth in productive operations; so far from the 'destination' being contemplated as taking place contemporaneously with the actual employment of wealth, things in themselves

* Book I. chap. iv. sect. 1.

quite inapplicable either for supporting labourers or for supplying them with materials, are 'capital,' according to Mr. Mill's conception of that species of wealth, as soon as the owner has '*willed*' them to be used for productive purposes. Having thus separated one portion from the rest of his wealth, the owner may be regarded as *functus officio:* the transformation of the things, thus endowed with the attributes of capital, into things applicable to production, and the ultimate realisation of the object to which they were destined being effected by the absolute powers inherent in 'capital.'

This peculiar view, so essential to the notion of wealth being 'destined' by the will of a sane man to any one definite object, however general, viz. that the wealth once destined to production, and thus converted into capital, should ever retain its productive powers, its value, and its utility, is strikingly exhibited in the following passage:—

42 'A fund may be seeking for productive employment, and find none adapted to the inclinations of its possessor; it *then is capital still, but unemployed capital.*' *

That is, we are to regard 'capital' as wealth which has been destined by its owners to the definite object of carrying on production by the employment of labourers in their own country, just as money subscribed to some charity is destined for the objects of such charity. It may have to lie idle for weeks, or months, or years, while mercantile or foreign undertakings offer their 10 per cent. profits for its use. Its owners are never to change their minds. It can never be diverted from its original object. It cannot be spent 'unproductively.' It cannot be lost, either to its owner, or the country, or the labourers, for the purchase of whose labour it has been destined, while its owners were as yet ignorant in what trade, in what production, it should be actually employed.

Mr. Fawcett's definition of 'capital.'

The following passages from Mr. Fawcett's 'Manual of Political Economy' show still more precisely wherein the dis-

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* Book I. chap. iv. sect. 2.

tinction between capital and not-capital consists, according to the theory of these writers:—

'The production of wealth, therefore, cannot proceed unless some of the wealth previously produced has been set aside from immediate consumption. The wealth which has been accumulated with the object of assisting production is termed capital; and, therefore, the capital of the country is the wealth which is not immediately consumed unproductively, and which may consequently be devoted to assist the further production of wealth.—p. 19.

'Capital, let it again be borne in mind, is all that wealth, in whatever shape or form it may exist, which is *set aside to assist future* production.'—p. 20. || 43

The difference between wealth 'set aside' for production, which is 'capital,' and wealth spent unproductively, which is not capital, is thus shown:—

'Suppose the farmers resolved to sell half their wheat, and spend the money upon their own enjoyments, the money for which one-half the wheat was exchanged would be thus *employed unproductively*. . . . The money for which the wheat is sold is not itself consumed; this money is devoted to purchase commodities, and if they are consumed unproductively, an amount of wealth equal in value to the quantity of wheat first exchanged is consumed unproductively, instead of being *devoted to increase the capital of the country*, and thus assist the *future* production of wealth.'—p. 22.

The act of 'destining' a fictitious cause, which excludes from the theory of production the control of demand.

Now, I submit that this notion of capital, as a portion of the wealth either of an individual, or of all the wealth-owners in a country expressed collectively as the wealth of a country, which is appropriated to the purpose of employing labour in such country, by an act of destination on the part of its owners, is false; and, further, that while it introduces into the theory of productive trade an entirely fictitious cause, viz. the act of destination, it excludes the very cause which in real life governs both the quantity of wealth, which is from time to time used as capital, and the particular mode or production in which it is used.

The true theory of the production of wealth is embodied in

these words: 'both capital and labour are the servants of the consumer.'

Consumption is not production; but the existence, or prospective existence of a purchaser, is a condition precedent to the employment of wealth as capital; and the quantity of the
44 products of labour and capital || required, and the quantity of money or wealth for which they will be exchangeable,—in other words, the demand and its money-measure, govern the quantity of wealth used from time to time in production,—whatever may be the quantity of wealth applicable to (or even 'destined' or 'set aside' for) such a purpose, the quantity of labour seeking employment, and the quantity of suitable raw material available to the producer.

The means through which demand controls production is the mind of the producer. The estimate of the demand in the producer's mind (in the absence, that is, of a previous contract with any particular purchaser), governs the quantity of wealth or capital (using the terms as synonymous) which is from time to time employed in productive operations. By this means only could wealth be applied to the production and increase of wealth; for unless the result of a productive operation is the production of things of equal or greater 'exchangeable value' than the wealth consumed in the process, it would be a 'destructive' and not a 'productive' operation at all. It would produce *things,* but would not increase 'wealth.' *

The demand for commodities not an element in Mr. Mill's theory of the production of wealth.

According to Mr. Mill's theory, 'capital' appears to be a load of wealth consigned to the care of a blind horse and a blind driver, the safe progress of which is insured partly by the imperishable nature of the thing itself, and partly by the sense of the horse, which prevents him from carrying his load very far out of the right road, by stopping him as soon
45 as he feels that he is falling into the pitfall of no-demand. ||

'Demand for commodities is not a demand for labour. The demand for commodities determines in what particular branch of production the labour and capital shall be employed; it deter-

* *Vide* Mr. Mill's *Definition of Wealth,* supra p. 39.

mines the direction of labour, but not the more or less of the labour itself, or of the maintenance or payment of labour. The demand for commodities is a consideration of importance rather in the theory of exchange than in that of production. Looking at things in the aggregate and permanently, the remuneration of the producer is derived from the productive power of his own capital.' *

The demand for commodities which could be got without labour would certainly be no demand for labour; but the demand for commodities which can only be got by labour is as much a demand for labour as a demand for beef is a demand for bullocks. Assuming the goods for which there is a demand to have been already produced, the demand for such specific goods would certainly not be a demand for labour; but if such specific goods would not satisfy the demand, the demand for such kind of goods would be a demand for the labour required to increase the supply.

It is not 'labour' that the employer buys, but the labourer's *work* (*opus* as distinguished from *labor*); and it is the selfsame thing that the consumer wants, and the purchaser of commodities buys, whether it is embodied in the materials which the capitalist supplies or not, and whether he buys it directly of the labourer himself, as in the case of the independent workman or working tradesman, or whether he buys it of a master-manufacturer, merchant, or retail dealer, at a price which includes, together with the labourers' wage, the profits which those intervening dealers require as remu- || 46
neration for their trouble and interest on their capital, which has been advanced either in the purchase of materials or in the payment of wages, or in the case of the merchant and retail dealer, in the purchase of the finished goods for resale.

The demand for commodities certainly does not directly determine the quantity of labour or number of labourers in a country, nor the quantity of corn or other things available for the maintenance of labourers, but it does determine the

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* Book I. chap. v. sect. 9.

quantity of labour employed, and the quantity of wealth spent in the wages of labourers.

The distinction between wealth and capital consists only in the *use* to which wealth is put.

I submit then that the notion of capital as a portion of the wealth of a country, destined to the payment of the wages of productive labourers, and distinct from the wealth spent in or applicable to the purchase of the products of their labour, is a false notion. The capital or wealth of a nation is the aggregate capital or wealth of its individual wealth-owners, and so long as a person's wealth is his own property, and not assigned to another, whether he be a capitalist engaged in some manufacturing trade or a private consumer, his wealth is equally applicable for productive or for unproductive purposes, to be used as 'capital,' or as consumptive expenditure, in the purchase of labourers' work, with the object of selling it again at a profit, or with the intention of using or consuming it himself; and as in the case of an individual capitalist or employer, his butcher, his wine-merchant, and his tailor, as well as the labourers he employs in his trade, are paid out of one common stock of wealth, so the wages of all the labourers employed in a country, and the purchase-money of all the
47 goods || bought in a country, come out of one common stock of wealth.

The wealth of a nation or of an individual does not at any time consist of two portions, one of which is 'capital' and the other 'not-capital,' any more than the whole supply of port wine in a country consists of two portions, one of which is medicine and the other not medicine. All port wine is more or less applicable for medicinal purposes, and all wealth is more or less applicable for productive purposes. When port wine is taken 'for the stomach's sake,' it is used as medicine, and might be called medicine. So wealth is called 'capital,' as being either applicable to or actually used with the object of producing or increasing wealth.

Wages of labourers not confined to funds used as capital.

Again, supposing the capital of a country to be the wealth of a country, which is of such a nature and so conditioned, with reference to the immediate wants and money-making designs of the wealth-owners themselves, as to be available

for the maintenance of labourers employed in the production of new wealth, the wages or remuneration of such labourers would not be confined to or limited by the amount of such wealth. The fallacy in the notion that the wages of productive labourers are limited by the amount of wealth or funds which are or can be employed as capital, consists in a confusion of these two funds: (1) the wealth or capital available for the *maintenance of labourers while employed in producing new goods or wealth*; which wealth or capital may come either from their own resources or those of their employers, or be borrowed from bankers or elsewhere; and (2) the amount of wealth available for || *the purchase of their work*, which may consist 48
of funds belonging to the consumer, or of funds belonging to the employer, or both, or may even be taken out of the very goods which the labourers produce, or their money value. It is by the amount of this latter fund that the wages of the labourer are limited, and not by the former, whether they are paid out of the employers' pre-existing capital or not.

Difference between the funds by which labourers are maintained and those by which their wages are limited.

The amount of money or wealth which a farmer can afford to advance for the maintenance of labourers, without using the money he gets from the sale of his stock or crops, is unquestionably limited by the amount of wealth or capital at his disposal from other sources; but the amount of money or wealth which the farmer is able to pay or contract to pay, as wages, is limited only by the amount of money for which his crops and stock will sell. When agricultural labourers are hired by the year, as was the universal custom in former times, and is now very common in the northern counties, their wages might all be paid, partly by money advanced during the year out of their employers' pre-existing capital, and partly by money obtained by him from the consumers or purchasers of his corn or stock.

Labourers not maintained on their employers' 'capital.'

It appears from the language sometimes used by these writers, that they attribute to the capital used in the payment of wages the function of maintaining labourers during their performance of the work for which the wages are paid.

The history of productive trade would not, probably, afford

a single instance where the order of nature was so reversed,
49 that employers were in the habit of || paying the wages of the labourers they hired before the labourers had completed the work, the price of which their wages represented. The ploughman is no more maintained during the performance of his work by the wage or price earned by that work, and paid at the end of the week, than the farmer is maintained in the spring and summer out of the money he expects to get by the sale of his corn in October. The funds out of which the labourer and his family are maintained from week to week are his own capital and not that of his employers, whether those funds consist of wages which have been paid to him by his employer on every preceding Saturday, or of money inherited from an ancestor.

Wages of labourers not limited by the capital of their employers, but by the money-measure of the 'consumers' demand.

The theory that the wages of labourers are limited by the amount of capital which their employers have at their disposal prior to the sale, and independent of the price of their goods, is very favourable to the doctrine somewhat in vogue among master-manufacturers, that the labourer has no right to look to the market price of the goods which he makes, or assists in making, as a measure of the sum which his employers would be able to pay in wages. Of late years, however, the workmen in most of these trades have become too powerful and too intelligent to be hoodwinked in this way, and employers have found it necessary to impress on their workmen that it is not their means, but the purchasers' demand, which limits the amount which they can afford to pay in wages. In the late dispute in the iron trade, when the employers taught an unruly and high-paid class of workmen the wholesome lesson
50 that employers can combine as || well as labourers, the more intelligent workmen discussed the question on the proper ground, viz. with reference to the purchasers' demand for the finished goods, and their power of supplying themselves elsewhere, if the English supply was too dear; and it being the general opinion that the works could not be all kept going unless the price of iron was reduced, the whole body of iron-workers, with the exception of the North Staffordshire men, agreed to submit to the proposed reduction of wage.

In the iron trade, as with the farmers, the employers' customers are undoubtedly, except in exceptional cases, merchants and dealers, and not consumers. But as the distributive function performed by these middle-men can be, and in many cases is, performed by mere agents of the employers or master-manufacturers, and as the price which they give for the products of labour is directly controlled by the money-measure of the consumers' demand, the part which they play in production may be ignored, as it generally is by all writers when treating of the causes by which wages are determined, and the employers' customers may be considered to be the ultimate purchasers and consumers of the goods.

Adam Smith's theory of the source from which the wages of labour are derived.

Let us now compare the notion, that the wages of labourers employed in production are limited to funds used as 'capital,' with the following doctrine of Adam Smith, as to the funds out of which the wages of this class of labourers are either directly or indirectly derived.

In the sixth chapter of his first book, Adam Smith tells us that the component parts of the price of com- || modities are, 51
the wages of labour, the profits of the employer, and the rent of the landlord. 'In every society the price of every commodity resolves itself into some one or other or all of these three parts.'

Passing on to the eighth chapter 'Of the Wages of Labour,' the source from which the wages of labour are derived is thus described:—

'The produce of labour constitutes the natural recompense or wages of labour. In an original state of things, which precedes both the appropriation of land and the accumulation of stock, the whole produce of labour belongs to the labourer. He has neither landlord nor master to share it with him. As soon as the land becomes private property, the landlord demands a share of almost all the produce which the labourer can either raise or collect from it. His rent makes the first deduction from the produce of the labour which is employed upon land.

'It seldom happens that the person who tills the ground has wherewithal to maintain himself till he reaps the harvest. His maintenance is generally advanced to him from the stock of a master, the farmer who employs him, and who would have no

interest to employ him unless he was to share in the produce of his labour, or unless his stock was to be replaced to him with a profit. This profit makes a second deduction from the produce of the labour which is employed upon land.

'The produce of all other labour is liable to the latter deduction of profit. In all arts and manufactures the greater part of the workmen stand in need of a master to advance them the materials of their work, and their wages and maintenance till it be completed. He shares in the produce of their labour, or in the value which it adds to the materials upon which it is bestowed, and in this share consists his profit.

'It sometimes happens, indeed, that a single independent workman has stock sufficient both to purchase the materials of his work, and to maintain himself till it is completed. He is both
52 master and workman, and enjoys the whole produce of his labour, or the whole value which it adds to the materials on which it is bestowed. It includes what are usually two distinct revenues belonging to two distinct persons—the profits of stock and the wages of labour.

'Such cases, however, are not very frequent, and in every part of Europe twenty workmen serve under a master for one that is independent; and the wages of labour are everywhere understood to be, what they usually are, when the labourer is one person and the owner of the stock which employs him another.'

Wages of labourers not confined to their employers' capital, as our productive trades are now conducted.

As in Adam Smith's days, so now, the means by which the majority of workmen and their families are maintained consist of wages derived principally from the capital which their employers have at their disposal prior to the sale of the work on which the workmen are engaged. But if we take a glance at the different industrial trades of this country, we shall see that the notion that the wages of such labourers are limited to the amount of their employers' capital, to which fund, according to the definition of capital given by Mr. Mill and Mr. Fawcett, the wage-fund accessible to such labourers is confined, is but little supported by the system on which these trades are conducted.

I have already noticed that agricultural labourers might have part of their wages paid out of the funds which the purchaser pays for the farmer's stock or corn; as a matter of fact, farmers are constantly in the habit of selling their goods for

the sole purpose of getting funds wherewith to pay their labourers. In the iron trade, and in other large manufacturing trades, the workmen's wages are paid from time to time, at intervals of a week, fortnight, or month. The operations in || which such workmen are employed consist in the produc- 53
tion of goods, such as iron rods, carpets, cloth, boots, ribbons, &c., for the most part in execution of orders for such goods, undertaken by their employers; and these goods are finished and delivered to the employers' customers at intervals of a week, or a few weeks, or a few months, and the purchase-money for the goods is paid over to the employers or master-manufacturers, either by bills or cash, within a short time after, if not before, they have paid the wages of the workmen by whose hands the goods were produced. In the case of the coal trade, the coal is probably often bought when it rests undisturbed at the bottom of the pit, and the coal-master gets his purchase-money as soon as the coals reach the pit bank. In the case of that multitude of journeymen who work for the master-carpenters, builders, bricklayers, millers, butchers, shoemakers, tailors, &c., throughout the country, it must often happen, that while these journeymen are paid at intervals of a fortnight or month, the money which their masters get from their customers and employers has been in their hands some days before they have paid their workmen their share of it.

In the case of this last class of employers, the purchase-money is not capital according to any use of the word. It is the personal expenditure of private consumers, who intend to eat the flour, and wear the boots and clothes, &c.

In the case of the large manufacturing trades, the wages of the workmen employed in producing goods, might be, and probably are often paid, at least partly, || out of the funds 54
supplied by the merchants who purchase the goods which they have made.

Merchants' capital no part of the wage-fund according to Mr. Mill's theory.

The funds supplied by the merchant to the manufacturer are certainly capital, according to the common meaning and use of that term; but they clearly form no portion of the 'capital,' of which, according to Mr. Mill's theory, the wage-

fund of the labourers consists, for they are not employed in the maintenance of labour, but in the purchase of its products. According to Mr. Mill's division of classes, merchants are not so much capitalists as labourers, whose functions belong to the theory of Distribution and not that of Production.

'Another numerous class of labourers, employed in rendering the things produced accessible to their intended consumers, is the class of dealers and traders, or as they may be termed, distributors. . . . Of these various elements (viz. wholesale and retail dealers, &c.) is composed the distributing class, whose agency is supplementary to that of the producing class.' *

Whatever may be the use of the merchants' capital to the manufacturer and labourer, it is clear that neither he nor his capital come within Mr. Mill's theory of production, or within his theory of the causes which determine the wages of productive labourers.

Second objection: That the aggregate wage-fund of a country could not be distributed by competition among its labouring population.

Lastly, assuming that the amount of the funds applicable for paying the wages of any particular class, or all the different classes of labourers, within any geographical, political, or commercial field, such as either Dorsetshire, or England, or Europe, at any given time, or within any given period, are limited and defined by certain causes, it would be impossible
55 for such funds to || be distributed by competition among all the labourers who may happen to be seeking employment in the field or country in which such particular or aggregate wage-fund exists.

The number of labourers to be employed in any trade determined by the quantity of work required to be done.

The number of labourers whom any class of employers engaged in trade, as for instance, the Dorsetshire farmers can employ (unless their capital is to be distributed as the Lancashire relief fund was applied, viz. without any view to its producing any profit or increase of wealth), is determined by the quantity of work they require to be done. If ten thousand labourers did all the work they wanted to have done, e. g. all the ploughing, and harrowing, and reaping, &c., there might be any number of surplus labourers in the county, and their

* Book I. chap. ii. sect. 6.

competition might reduce wages to sixpence a day, but the farmers would not employ more labour than they wanted, however cheap it was.

The notion that the labourers of a country can all compete with each other absurd.

If instead of taking the capital of the farmers of a county, we take the aggregate capital at the disposal of the employers engaged in the different trades of a country as the supposed wage-fund, the absurdity of the supposition that the whole of such aggregate fund could be distributed by competition among the different classes of labourers composing its dependent population becomes still more glaring. How could the shoemakers compete with the tailors, or the blacksmiths with the glass-blowers? or how should the capital, which a master-shoemaker saved by reducing the wages of his journeymen, get into the hands of the master-tailor? or why should the money, which a reduction in the price of clothes enables the
private | consumer to spend in other things, go to pay or re- 56
fund the wages of any other class of labourers belonging to his own country? It would clearly be just as likely to be spent in the purchase of foreign wine or in a trip to Switzerland.

The notion of all the labourers of a country constituting a body of general labourers, capable of competing with each other, and whose 'general' or 'average' wage depends upon the ratio between their number and the aggregate wage-fund, is just as absurd as the notion of all the different goods existing in a country at any given time, e. g. the ships, and the steam engines, and the cloth, &c., constituting a stock of general commodities, the 'general' or 'average' price of which is determined by the ratio between the supposed quantity of the whole aggregate stock and the total purchase-fund of the community.

Wealth or capital not distributed by competition, but by the wants of the consumer.

In assigning to competition the function of distributing capital, the theorist evidently takes an imperfect analysis of the causes by which the distribution of the wealth or capital of a country is effected. Competition on the part of any class of labourers and traders reduces the price of the particular kind of labour and its products, which they make and sell;

but it is clearly the wants of the consumer or the purchaser's demand which distributes the funds he has at his disposal among the different trades in a country.

The true theory of the production and increase of wealth, and of the part played by competition in its distribution, would seem to be thus shown. In an early stage in the
57 development of trade, the competition of || the labourers and farmers engaged in supplying the necessaries of life would afford the wealth-owners, say the owners of land, a certain quantity of wealth, in the shape of either food or money, in excess of what was required for the payment of the cost of the production of such things, and the satisfaction of their own wants. This surplus wealth its owners might either keep stored up, or waste, or apply to the purchase of other conveniences or commodities, as invention, labour, and trade brought them to their notice. With the advance of civilisation wealth-owners have preferred spending their wealth in the purchase of whatever commodities and conveniences nature or fashion render desirable, and land, labour, and capital can supply. As the distribution of wealth in the purchase of the products of labour is the distribution of a purchasing power among the labouring population of a country, the labourers themselves become consumers, whose wants or demands govern the nature of the wealth to be produced, and the quantity of labour and capital to be employed in supplying such demands, just as much as the demands of the landowners, capitalists, traders, and other wealth-owning members of the community.

According to this theory of the distribution of wealth among the labourers and traders of a country, labourers are employed, not because they exist, or want employment, but because they are wanted by the consumers, and by the consumers belonging to their own class, as much as by the non-labouring consumers of their country. The number of labourers actually employed from time to time in a country, in other
58 words, || the number of persons living by their labour, is always closely commensurate with the number of persons not

in the possession of any other means of supporting themselves, not because the causes by which wealth is produced could operate in distributing the wealth or capital of a country among all the persons who may happen to constitute its labouring or dependent population, but because the conditions which control the increase of its dependent population render it impossible for any large surplus population to exist—unless indeed the Foundling Hospital and Casual Ward Departments of its Charity or Poor Law system are conducted on very indiscreet principles. So far, however, as trade and competition are concerned in the matter, the capital applicable at any time for the employment of additional labourers in any particular trades in this country, such, for instance, as the iron trade or watch trade, is far more accessible to the iron-workers of Belgium, or the watchmakers of Geneva, than to any unfortunate members of our own population, who being not wanted in the trades for which they are skilled, are not skilled in the trades where the demand for labour is unsatisfied.

The distinction between 'labourer' and 'labour' ignored in the wage-fund principle.

Again, the reader will have observed that, in the passages above quoted, both Mr. Mill and Mr. Fawcett use the different expressions 'supply of labour,' 'labouring class,' 'population' (meaning thereby labouring population), 'those who are anxious to labour,' almost indiscriminately, as if they were equivalents. But if we consider at all what a supply of labour is, we shall find that, although there may be such a thing as a definite supply or amount of labour-power in a country, 59
analogous to a supply of goods, a supply of labour power (even if we confine that term to human labour) is quite a different thing to a supply of 'labourers' or of persons 'anxious to labour.' An increase or diminution in the dependent population, or labouring classes of a country, is not necessarily accompanied by a corresponding increase or diminution in the labour or wealth-producing power of a country. There cannot be any greater error in a theory of political economy, than to confuse labour and population. A supply of labour is a supply of potential work, and every practical man knows

that the quantity of work to be got from labourers is no more determined by their numbers, than the quantity of apples to be got from an orchard by the number of trees in it.

Supposing, however, that an increase in the number of the population seeking employment would be an increase in the supply of labour, according to what system of productive trade could the capital of a country be distributed among any increasing number of labourers that might be anxious to be employed? If there was any reality in the notion of a general labourer, if all the population seeking employment could turn their hands to anything, such a distribution of capital might possibly be effected in some country or other; but as these persons and this supply of labour would, as already observed, consist of a number of different kinds of labour and classes of labourers that could not compete with each other, but could only be employed in the particular trade or employ-
60 ment for which they were || skilled, the supposition that a fixed quantity of capital could be distributed among any number of labourers who may at any time be seeking employment in any district, trade, or country, involves one or other of these absurdities:—it must either be given in exchange for a greater quantity of work, such as boot-making, or ship-building, or ploughing, than the employers in these trades wanted or could dispose of,—or the work as well as the capital must be divided; that is, any additional number of labourers could be employed, on condition that no more work was done by the increased number.

This mode of carrying out the wage-fund law, by which means alone the distribution of its capital among whatever number of labourers may happen to be wanting employment in a country could be effected, is illustrated by the actual result of unrestricted competition in the case of the lower classes of labourers. Competition, with the assistance of the potato, had reduced the wages of the Irish agricultural labourers, in the year 1836, to fourpence and sixpence a day, and thousands of half-starved creatures were labouring in the performance of work which could probably have been done

better and cheaper by a few hundred labourers of the same race, if paid the wages which they get in every other country but their own.

I once heard it remarked by an ironmaster carrying on his trade in Russia, that he would rather have 300 English workmen, at their high wages, than 2000 Russians.

Let us now consider shortly the differences in the || practical 61
results and teaching of the two theories of political economy; viz. that to which this law of wages belongs, and that to which it does not.

Practical absurdities deduced from the wage-fund principle.

According to the wage-fund theory, employers would act rightly in always paying the lowest wage to their labourers, which their necessities and their competition would induce them to accept, independently of any consideration as to the probable effect which such wage may have on the physical or moral condition of the labourer or his family, and independently of any consideration as to the permanent well-being of the trade.

The association of either employers or labourers, for the purpose of preventing wages being reduced by competition below such rate as may be considered sufficient, relative either to the wants of the labourer or the permanent interests of a trade, are illegitimate, as being an interference with the supposed natural law by which the wage-fund is distributed over the whole population.

According to this theory, an improvement in the material condition of the labouring classes, in other words, an increase in the quantity of wealth to be obtained by them or any of them in the shape of wages, can be effected only by altering the ratio between capital and population in their favour. This can be brought about in two ways, either by the rich or by the poor,—by increasing the wage-fund or by reducing the labouring population.

The rich can, according to the theory, increase the wage-fund by reducing their personal expenditure, and applying or 'destining' to the purchase of labour the || money or wealth 62
which they would otherwise spend in the purchase of the pro-

ducts of labour; a process very analogous to that of lengthening a stick by cutting off from the top that portion which is to be added to the bottom.*

The poor can raise their wages by diminishing their numbers. They may either emigrate, with the object of benefiting the condition of those who stay behind, or they may abstain from marrying, with the object of securing a better maintenance for the children of those who do; or, if they cannot practise such disinterested self-denial as this, they may marry and then regulate the number of their children according to their estimate of the probable future demand for labour at the time their children are grown up. It is this practice of self-denial on the part of married labourers that Mr. Mill seems to consider the most practicable means by which the condition of any labouring population can be improved. This duty on the part of married labourers may be taught them indirectly when young by education, and its observance in after life may be enforced by public opinion, or if necessary, by the legislature.

'An education directed to diffuse good sense among the people, with such knowledge as would qualify them to judge of the tendencies of their actions, would be certain, even without any direct inculcation, to raise up a public opinion, by which intemperance and improvidence of every kind would be held discreditable, and the improvidence which overstocks the labour market would be
63 severely condemned as an offence against the common weal. |

'If the opinion were once generally established among the labouring class, that their welfare required a due regulation of the numbers of families, the respectable and well-conducted of the body would conform to the prescription, and only those would exempt themselves from it who were in the habit of making light of social obligations generally; and there would be then an evident justification for converting the moral obligation against bringing children into the world, who are a burthen to the community, into a legal one. There would be no need, however, of legal sanctions, if women were admitted, as on all other grounds they have the clearest title to be, to the same rights of citizenship

* See as to this, *Principles of Political Economy*, Book I. chap. V. sect. 3.

as men; let them cease to be confined by custom to one physical function, &c.' *

A very slight consideration of this question will enable the reader to draw a satisfactory distinction between the evil of early and improvident marriages and the absurdly conceived offence here spoken of. The returns of the Registrar-General, for the years 1863 and 1864, showed that the young cotton-spinners and weavers of Lancashire were fully aware of the folly and impropriety of marrying, with no more honest livelihood in their immediate prospect than that of claiming a share in the Relief Fund.

Assuming, however, that matrimonial improvidence is one of the main causes of pauperism, it can only be regarded as an indirect and remote cause of an 'overstocked labour-market;' at least, in the case of any skilled trade. In all employments except that of the 'common labourer,' the persons directly responsible for 'overstocking the labour-market' are not the parents of poor children, but the employers, or workmen, who, from motives of self-interest (in some cases benevolence), || employ too many children or apprentices, and thus 64
educate and attach to particular trades persons who would otherwise be as unable to lower the wages of such trades by competition as if they had never existed at all.

Matrimonial improvidence only one of several causes of impoverishment.

Supposing again that other reasoning than that constrained by an erroneous principle should divert the attention of the philanthropist, the public, or the legislature, from the dealings between employers and labourers to the matrimonial proclivities of the 'people,' common sense would teach that precepts against early and improvident marriages would be a recipe only for preventing the degradation of a well-to-do class, not a means for raising a class already so degraded by poverty as to be incapable of putting any value upon the comforts or enjoyments which a higher wage would afford them or their children. According, however, to the theory which we are considering, the impoverishment of a labouring

* *Principles of Political Economy*, Book II. chap. xiii. sect. 2.

class may be the *necessary* result, not only of matrimonial improvidence, but of other causes over which they can have no possible control, viz. a diminution in the demand for labour, or a rise in the price of the necessaries of life.

In considering the effect of such occurrences on the condition of a labouring class, the exponents of the theory are forbidden by their own dogmas to save the labourers by the only means by which they could be saved, and by which means they certainly would be saved, if they were in the hands of rational employers, and are compelled to admit that the effect of such events may be that the class becomes permanently
65 degraded. ||

> 'The effects produced by a decreasing demand for labour, or by a rise in the price of the articles usually consumed by the labourer, are directly the reverse of those now stated. The number of labourers continuing, for a while at least, the same, the rate of wages is *necessarily* diminished when the demand for labour declines, and it *necessarily* continues at its old level when prices rise; so that in both cases the condition of the labourers is changed for the worse. In consequence they are obliged to economise; and should the pressure continue for a considerable period, there is a risk that their habits should be degraded, or that they should learn to be satisfied with an inferior species of food, or a lower standard of comfort. Should this change unfortunately take place, the population would accommodate itself to the new state of things; and it would be difficult for the labourers to attain, at any subsequent period, to the elevation from which they had been cast down.' *

It is clearly only in the mind of the theorist, or among very foolish people, that these occurrences produce the consequences here asserted to be 'necessary.' If a rise in the price of the necessaries of life would have any deteriorating effect on the condition of a labouring class, what but a false theory could possibly oppose any objection to employers consulting their own interests by raising wages, so as to keep them in their former efficient condition? We know that in this country wages are almost always raised by the employers themselves

* M'Culloch's *Notes to Smith's Wealth of Nations*, p. 473.

to meet a rise in the price of the necessaries of life, in the case of any labouring class (e. g., an agricultural class) whose wages are so low as to render such a measure necessary.

Again, why should a diminution in the demand for || labour 66
in any trade *necessarily* be followed by a reduction of wages, and a consequent impoverishment of those labourers whose labour is still required? For no reason whatever but to satisfy the theory that supply and demand operate on the price of labour in the same way as they do on the price of goods.

A diminution in the demands for goods, the supply remaining the same, is followed by a reduction of price to such rate, however low, as will sell the whole supply, because the sole interest of the holders of the supply is to sell all their several stocks at some price rather than not at all. On the other hand, a diminution in the demand for any particular kind of labour, or class of labourers, could not possibly be followed by a reduction of price or wage to a further extent than the necessary requirements of the labourers whose labour was still wanted would permit, whatever might be the number of persons anxious to be employed whom this condition would keep out of employment.

If labourers lived upon air, and brought up their children upon the same cheap element,—if there was no connexion between the existence, powers, and willingness of the labourer and the wages he is paid, supply and demand might reign as supreme in the 'labour-market' as in the goods-market, and the theorist might then safely indulge his generalising propensities, and subject the wages of labour and the price of goods to the same general principle. As, however, labourers do not live upon air, but upon their wages, however much supply and demand may raise wages, and even keep them at a high rate, they would never, so long as || employers have an 67
interest in the permanence of any labouring class, reduce wages below the minimum rate at which they would be able and willing to continue working as well as they did on the higher wages.

The permanent interests of capital are the protection of labour.

It is in this respect that the separation of capital from labour offers a protection to the labourer during a period of depressed trade which independent workmen cannot obtain: for where a trade is much depressed, association loses its control, and nothing but the permanent interests of capital can check the disastrous effects of competition. As applied to productive trades carried on by independent workmen, there would be much truth in the theory that the earnings of labourers are as much under the control of supply and demand as the price of goods; but such workmen are precisely that class to which the wage-fund principle is altogether inapplicable, while the general tendency of the working manufacturer class to self-extermination supplies the best evidence that the dependence of labourers on supply and demand is conducive to the annihilation of labour, not to the increase of wealth.

Another practical absurdity deducible from the wage-fund doctrine must not be passed over. Most practical persons are aware of the fool's-game which labourers and employers are in the habit of playing with each other, when labourers are employed on the day-wage system. The employer begins by offering his labourer a low wage; this the labourer accepts, and then tries, by doing as little as he dare each day, either
68 to induce his employer to raise his wage, or at all events to || get several days' wages for work which he could do in a much shorter time. The employer, consulting his interests in the matter, either waits for the labourer to justify his claim for a higher wage, by working better, or reduces his wage according to his view (perhaps just) of the value of the work which the labourer actually performs. The result is, that the labourer becomes first lazy, then underpaid, and then absolutely incapable. Suppose, however, that the wage-fund principle were true, a diminution in the supply of labour, i. e. of work supplied by labourers to their employers, would not have the effect of diminishing in any degree the quantity of money to be obtained by them in wages; for the essence of the principle is, that the amount of the funds to be paid in wages is not affected by the quantity of the 'supply of labour'

which is offered for sale. As then they could get no more wage by doing more work, so they could not get less wage by doing less work. According to the wage-fund principle, labourers would have precisely the same amount of funds distributed amongst them, whether the Saturday half-holiday was extended to every day in the week, or whether they worked twelve or fourteen hours a day!

The practical teaching of a true science of Political Economy.

A true science of Political Economy would teach the labourer that the more work and the better work he gave his employer, the more would be the wages which his employer could afford to pay him.

It would teach labourers that the labouring classes of a community are properly and fairly and fully remunerated, when the lowest class, say the agricultural || labourer, receives 69
a wage which is sufficient to afford him and an average family a comfortable livelihood, while the labourers belonging to other trades are in receipt of wages higher in proportion to the skill required, or the disagreeable, unwholesome, dangerous, laborious, or costly nature of the work which they severally perform.

It would also teach labourers that, as the real value of the wages which they obtain depends upon the quantity of the necessaries and conveniences of life which they can purchase, labourers are themselves benefited, as well as the rich or non-labouring class, by the cheapness of the labour employed in the production of the things which they require.

It would teach labourers that, when any body of labourers raise or keep up the price of a commodity of general utility or consumption, by forcing their employers to give a price or wage for their work disproportionately high, as compared with that which other labourers are receiving, they are getting a double advantage over the rest of their class; for while the money that they obtain in excess of their just remuneration gives them a power of consumption to which they are not entitled, it increases to the same extent the price of the things which other labourers buy or require.

It would teach labourers that the true object which they

and their Unions should have in view, when considering their interests as a whole, and as consumers as well as labourers, is not to raise wages, but to equalise the price of labour,—
70 that is, to insure a just and || sufficient remuneration for each class of labourers, so far as the variations in the demand will permit; and to prevent as far as possible any labouring class becoming depressed or impoverished by the pressure of competing employers, or the suicidal competition of its own members; or by a diminution in the purchasing power of their wages caused by natural scarcity, taxation, or any other cause.

It would teach labourers that, while they have a perfect right to get the whole of the wage-fund, at any time accessible to them, by combining in withholding their labour, so as to induce their employers to give them all they can afford, they should ever bear in mind that the natural effect of a prolonged strike is to reduce that very wage-fund by driving away capital from their trade, and sending the consumer to another market.

A true science of Political Economy would teach employers that, while the consumer determines the kind and quantity of things that labour and capital should produce, it is for them and their labourers to determine the price of those things, and that it is their fault if they produce more than the consumer will buy at the price they require.

It would teach employers that associations of labourers are required by the interests of capital itself, in proportion as the competition of employers deprives them of their protective power.

It would teach employers that it is their interest to allow the competition of laborers to reduce wages to such an extent only as, in the opinion of a practical and liberal-minded man,
71 is consistent with the perma- || nent wellbeing of the class. In the higher trades and professions they can safely (so far as regards the interests of the labourers at all events) leave the determination of wages to the labourers themselves, particularly when, as in the professions and high-class trades, the price of their services is not left to the unrestricted

action of individual competition. In the lower trades, however, and more especially in the case of agricultural labourers, it would be mere mockery of the necessities of the poor, as well as false economy, so far as regards the general interests of society, and of the employers themselves as a permanent class, to allow competition to determine the wages they should pay, whenever wages have been already reduced to such a rate as would at all involve the question of sufficiency. In such a case a true Political Economy would require the employer to study well the difference between cheap labour and low wages, a distinction which the false theory we have been considering entirely ignores. A true Political Economy would teach the employers of labour that the reduction of the wages of any class of labourers below a certain point, although it would enable them to employ more labourers for the same money, would be naturally accompanied by a decrease instead of an increase in the quantity of good work which they would get done for their money; while they would be acting in direct antagonism to the interests of the society to which they belonged in not stepping forward, by concerted action if necessary, to prevent the deterioration and degradation of any one of its working classes.

The competition of industrious men, whether traders || or 72
labourers, is the life of trade, but it is no less true that unrestrained competition is its destruction.

The theory that wages depend upon supply and demand inconsistent with the natural wage principle.

It is true that supply and demand have a tendency to reduce as well as to raise wages, and it is true that the natural tendency of the increase of population is to maintain such a relation between labour and capital, that competition is on the side of the labourers rather than on the side of the employers of labour; in other words, the principle which gives labour of every kind a natural and sufficient price is true, while the principle which gives labour a market or 'supply and demand' price is false.*

* As to the bearing of Malthus' principle of population on the natural wage principle, see Smith's *Wealth of Nations*, by M'Culloch, note iv.

It is true that the natural and unconquerable tendency of the increase of population is to keep up the supply of labour, of every kind and quality, somewhat in excess of the demand for it at a sufficient price; while it is only in an exceptional and temporary state of things, that the labour capable of being employed constitutes a supply bearing a relation to its demand at all analogous to that of a supply of goods produced and held for sale to the demand for such goods. It is only when the whole available or potential supply of labour is wanted by the demand at a higher than its sufficient, or natural, or customary rate, that the basis of wage is the proportion between the supply and demand of labour. 'Looking at things in the aggregate and permanently,' the quantity of labour capable of being employed is ever somewhat in excess of the
73 demand || for it at a sufficient price or wage Labour may be deteriorated, driven away, and destroyed, by being cheapened too much, i. e. by wages being reduced below a sufficient rate; but a supply of labour can never be 'sold off' by such means. It is when the demand for labor is much greater than the supply,—when competition is on the side of employers, and not of the labourers,—when the price of labour is raised to the utmost, that the whole supply of labour available at any time is exhausted by the employment, not only of all the labour of the most able labourers, but also of that labour which can be afforded by the young and the old, and other less able and less eager labourers. But if such a relation between the supply and demand for labour was normal, natural, or permanent, the law of natural wage would be the reverse of the true law; and the price of the products of labour, and the services of the labourer, would be governed by their value and utility to the purchaser or consumer, not by the wants of the labourers employed to produce them.

It is because the tendency of the increase of population is to keep competition on the side of the labourer—to preserve the balance of the fluctuations of supply and demand in favour of capital and the consumer—that the price of commodities is governed by the wants and powers of the labourer, and not by the wants and means of the consumer.

A reduction in wage tends to destroy labour but not to bring into employment all who are in want of it.

According to the natural and permanent relation between labour and capital, competition is on the side of the labourers; and such competition can never have the effect of bringing the whole supply of labour into || employment, however low it 74 may reduce its price. In other words, it is not true that in the usual and normal condition of things, the rate of wages or price of labour which would result from free competition, would distribute the 'wage-fund' of any trade or employment among all the labourers capable of being employed in it at any given time.* It is by a rise and not by a reduction of wage, that the whole supply of labour available at any given time would be exhausted.

It is true that 'labour is a commodity capable of being increased to a great and even unlimited extent,' † so long as it is paid a sufficient price; and it is also true that the price of labour 'may be lowered by the competition of labourers down to zero, or some unassignable limit.' ‡ The price of labour can be reduced by competition 'below zero,' and is reduced 'below zero,' whenever its price is reduced below a sufficient price, i. e. when its price is reduced to such a rate as deteriorates the labourer, and diminishes the quantity of good work which he is either willing or able to perform.

It is not true, however, that such a reduction of wage, at least if effected by the free will and competition of labourers, and not by the oppression of employers, would tend to diminish the number of labourers, except perhaps in very high-class trades. In the higher trades, such a reduction might tend to drive away or keep out labourers; but in the lower trades, the natural tendency of such a reduction of wage, so brought about, is to || keep up an increased supply of labourers, at 75 least commensurate with the increased number of labourers which the reduction of wage would enable employers to employ. The labourer ceases to be a good and able workman long before he ceases to marry and bring up children. Thus, while a reduction of wage below its sufficient price diminishes,

* *Vide ante*, p. 15. † *Vide ante*, p. 32.

‡ *Vide ante*, p. 23.

deteriorates, and destroys labour, it increases both the demand for and the supply of inferior and impoverished labourers. It increases the number of incapable labourers employed, the number of poor parents and poor homes, and the number of poor children brought into the world; while it pushes further and further away that boundary to competition which the limits of the supply of labourers is supposed to put.

> **Rusticus expectat dum defluit amnis, at ille**
> **Labitur et labetur in omne volubilis ævum.**

If it were possible to insure the distribution of any supposed wage-fund among the whole body of labourers wanting employment in it at any given time, such a distribution would be effected, not by competition, but by association, and by association operating in the most obnoxious and most pernicious direction. It is precisely such a distribution of the wage-fund at which associations of labourers aim, when they endeavour to limit the amount of work which individual labourers shall perform. It is precisely such a distribution of their capital which the association of employers brings about, when, as is the universal custom with farmers, it forbids individual employers raising the wages of their own workmen,
76 and keeps down the wages of the whole class || to the lowest possible rate, under the erroneous notion that such a system reduces the number of persons to be maintained by the poor-rates.

But the evil tendencies of this doctrine are not confined to supporting principles of false economy. A theory which teaches that the wages of labourers depend upon the proportion between the supply of labour and the amount of capital already 'set aside' and 'destined' for its purchase, assigns to the labourers the function of distributing such capital among themselves, independently of the wills of their employers: and thus deludes labourers with a false notion of independence, deludes employers with a false notion of irresponsibility, and encourages hard social principles, bad moral principles, and pernicious political principles.

The true view of the causes and conditions by which the wages of labourers are regulated or determined would seem to be this:— True theory of the basis of the wages of labourers.

(1) In exceptional cases—as in the case of new trades, popular singers and actors, jockeys, &c.—the demand for certain labour may be, and often is, so much greater than the supply, that the whole supply is both exhausted and valued by the competition of employers. In such cases the price of labour is determined, not by the natural or even the supposed wants of the labourer, but by the wants of the purchaser, or by the relation between the demand and supply of labour.

(2) In the natural, usual, and permanent condition of trades, the supply of labour is greater than the demand, competition is on the side of the labourers, || and the price of la- 77
bour is determined by the wants of the labourer.

In the former, or exceptional condition of things, the price of labour is a 'market' price; in the latter, or natural condition of things, the price of labour is its 'cost' price,—analogous to the price of goods produced to order, as distinguished from the price of goods produced for sale to the general purchaser.

The determination of the sufficient or proper cost-price of different kinds of labour is a practical problem, to be solved from time to time by employers and labourers, just as the proper method of producing iron, or growing wheat, is a practical problem, to be solved by the manufacturers of iron and farmers.

The moral and physical causes and conditions which determine the proper or sufficient price of different kinds of labour, are the subject of Ethical and Physiological science rather than of Political Economy, when treated otherwise than as a practical science.

As the subject of an abstract system of Political Economy, the proper or sufficient price of labour is that wage or price which at any given time enables or induces the labourer to give the largest proportionate return in the shape of work or product.

The closest analogy to the rationale of sufficient or proper wage, is that of the proper quantity of capital to be applied in any agricultural process. Assume the farmer to have sufficient capital at his disposal, and a particular crop to produce, the proper quantity of capital to be applied to his land would be that quantity which would produce the largest
78 proportionate return. || If the application to a certain quantity of land of 100*l.* worth of capital would produce a return of 10*l.*, and the application of either a less or greater quantity would produce a smaller percentage of return, 100*l.* would be the proper sum to spend on the land; and such sum would represent the 'wants' of the land when cultivated for a particular crop.

So in the case of the labourer, who bears somewhat the same relation to his labour as land bears to its productive powers, the proper sum for the employer to give him in wages would be the sum for which he would give the greatest proportionate return of work or product; and such sum would represent the 'wants' of the labourer.

In the case of land, the determination of the proper amount of capital depends solely upon the judgment of the farmer: in the case of the labourer, the proper or sufficient wage for an employer to pay is determined mainly by the labourers, i. e. by the competition of labourers.

Theory of the proper effects of competition of labourers.

Assuming that such competition operates so as to meet the interests of both capital and labour, the true theory of its effects would seem to be as follows:—

(1) It would keep the price of labour at that rate which would both afford an ample maintenance to the average labourer, and be at the same time the most profitable rate of wage for the employer to pay.

(2) It would insure the full employment of those most in want of employment, and whose labour is most valuable and most wanted by employers. It would insure the constant
79 employment of the more able and || the more skilled, to the exclusion of the less able and the less skilled; of the more willing, to the exclusion of the less willing; of the industrious,

to the exclusion of the idle; of men in the prime of life, to the exclusion of the older and the younger; of husbands and fathers, who are most in want of employment, to the exclusion of wives and mothers, who had better be at home; of children, who had better be at school; and of the old men, who ought to be provided for, either by their savings, or by their children, or by the country: to the exclusion, in a word, of all those who, though capable of working, and willing to work at a higher price or wage, are either unwilling or unable to work at that rate at which the most able and most in want of employment supply the demand.

Natural tendencies of competition of labourers.

The theoretical or ideal effects, however, of competition must not be mistaken for its actual or natural effects: and whether we study the tendency of competition in a particular trade or workshop; whether we study its tendencies in the piecework system, which is most appropriate for its due operation, or in the day-wage system, which, though less appropriate, cannot be entirely disused; or whether we deduce a theory of its tendencies from the principle of national wage, or Malthus' principle of the increase of population,—we shall find the same proof, that its tendency is to cheapen labour too much, to exhaust the labourer too soon, to deteriorate labour and generate bad work, to multiply inferior labourers, and impede the increase of wealth. || 80

Competition of labourers must be controlled.

It is to the interest of both capital and labour that the competition of labourers be controlled, whether it be by association on the part of the labourers, or by a just and prudent regard for the wants of the labourer and the interests of capital on the part of employers. As a matter of fact, the means by which the tendencies of competition are controlled, is by the association of labourers in the more highly-paid trades, and by the association of employers in the low-paid trades, e. g. the agricultural trade: the general tendency of association being, on the part of labourers, to restrict labour and to keep its price too high; on the part of employers, to diminish labour, by keeping the wages of labourers too low.

But whatever be the tendencies of association—whatever

be the means or principles of action by which the ample remuneration of all labour permanently required can be permanently secured,—no theory of Political Economy is true, which does not recognise, in such means and principles, the most important causes of the increase of both wealth and population; and no theory of Political Economy is true, which either excludes the dealings between individual employers and labourers from the control of such principles, or divests employers of responsibility for the payment of insufficient wages to labourers who are unable to protect themselves.

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NOTES

[1](page 4) "PREFACE.—The following pages were written some three years since. Their object was to show not only that the wage-fund principle was erroneous, but that it was the very foundation of the whole system of Political Economy taught by Mr. J. S. Mill and his followers.

"In the first article in the *Fortnightly Review* for the present month, entitled 'Thornton on Labour and its Claims,' which bears Mr. Mill's signature, the following passage occurs:

"'It will of course be said that these speculations are idle, for labour is not in that barely possible excepted case. Supply and demand do entirely govern the price obtained for labour. The demand for labour consists of the whole circulating capital of the country, including what is paid in wages for unproductive labour. The supply is the whole labouring population. If the supply is in excess of what the capital can at present employ, wages must fall. If the labourers are all employed, and there is a surplus of capital still unused, wages will rise. *This series of deductions is generally received as incontrovertible. They are found, I presume, in every systematic treatise on political economy, my own certainly included. I must plead guilty to having, along with the world in general, accepted the theory without the qualifications and limitations necessary to make it admissible. The theory rests on what may be called the doctrine of the wages fund.*'

"Mr. Mill proceeds to give the following explanation of this doctrine: 'There is supposed to be, at any given instant, a sum of wealth unconditionally devoted to the payment of wages of labour. This sum is not regarded as unalterable, for it is augmented by saving, and increases with the progress of wealth; but it is reasoned upon as at any given moment a pre-determined amount. More than that amount it is assumed that the wages-receiving class cannot possibly divide among them; that amount, and no less, they cannot but obtain. So that, the sum to be divided being fixed, the wages of each depend solely on the divisor, the numbers of participants.'

"This account of the doctrine of the wages-fund coincides entirely with the notion which I have always had of it, as Mr. Mill's own law of wages; and I cannot refrain from claiming the admissions which he has now made, in the article from which the above passage is taken, as strong evidence of the soundness of my main argument.

"*May* 5, 1869."

[2](page 9) The pagination of the original text is preserved.

[3](page 25) On this page as elsewhere (cf. pp. 34, 36, above), the same mark has been used where two foot-notes, occurring upon a single page in Longe's text have fallen upon different pages as reprinted, and vice versa.

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